



April 2021 – MBS Mantra MBS High Income/Absolute Return Strategy returns:

	% Net Return	% Gross Return	Since 4/1/2020 Net %	2021 YTD Net %	2021 YTD Gross %	Trailing 1 year Net %
Aggregated SMAs	+1.29%	+1.35%	+17.6%	+3.3%	+3.6%	+13.0%
Founder's Portfolio	+1.48%	+1.56%	+17.6%	+3.3%	+3.6%	+12.7%

Apr 2021 Income: +1.52%; Annualized: ~19.6% (Aggregated SMAs @ recent marks)

Apr 2021 Cashflow % of invested value: +3.1% (~ 37% annualized rate)

Apr 2021 Loss rate: -0.05%

Hello.

We had another terrific month in April, significantly outperforming bond benchmarks (B-AGG +0.73%; B-MBS +0.57%; B-HY +1.09%), thanks to the High Income from our MBS portfolio. Once again, the income was greater than declines in our MBS marks (off slightly), demonstrating the resiliency of our unique MBS investment strategy.

The Income performance of the MBS portfolio was a little higher than usual, at 1.5%, 19.6% annualized. The loss rate was miniscule, at -0.05%. Marks from the pricing service were mixed, with some down and some up, with the market coming to recognize the value of some of our bonds.

Portfolio cashflows were very strong, at 3.1% of the portfolio (37% annualized), reinforcing our contention that our portfolio’s duration is short and that our strategy thus maximizes risk adjusted returns.

We have now had 13 months in a row with positive returns, returning ~+ 18% (unlevered) since the March 2020’s liquidity/deleveraging selloff, with lower volatility than our bond market benchmarks. By comparison, over the past year, the B-AGG has returned -0.2% while B-MBS has returned 0.2%, and are both negative YTD. **Since our ‘inception’ 11/2014, 77% of the months have had positive returns.**

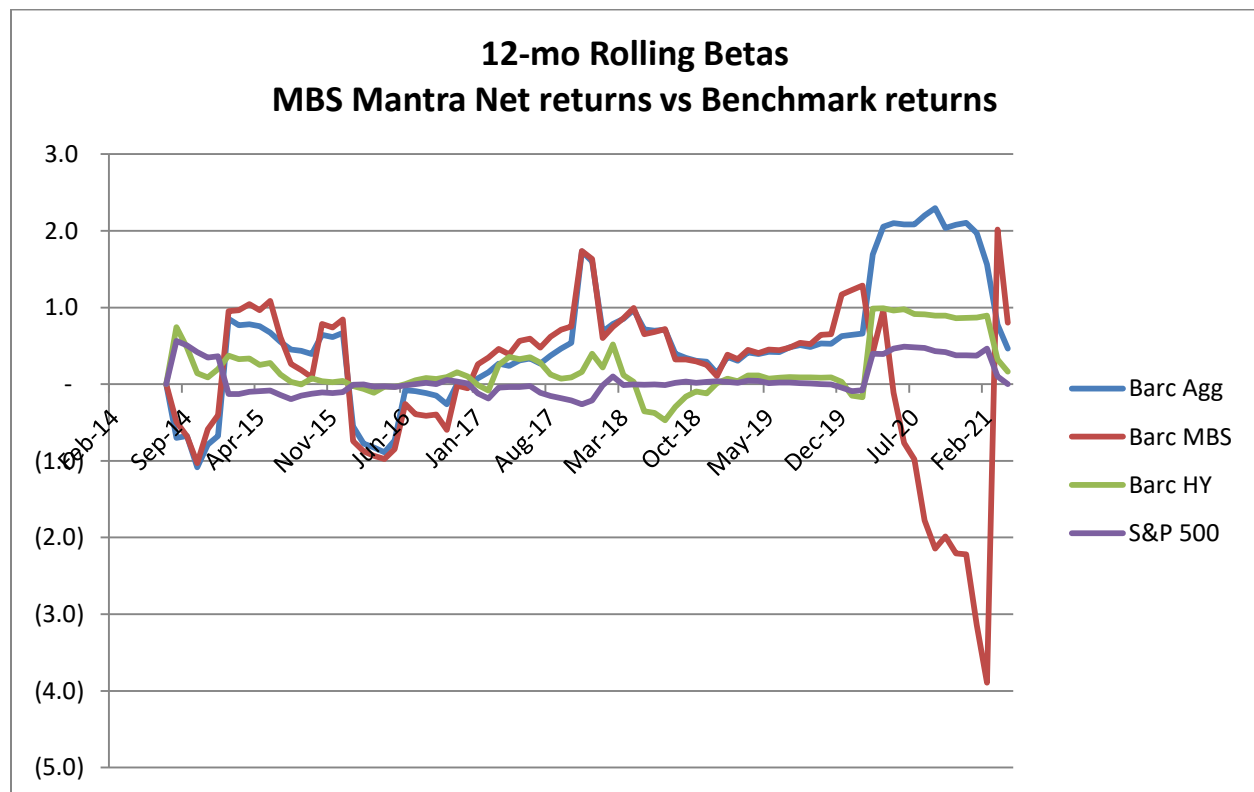
The High Income of our MBS continues to reduce the breakeven prices for each bond we own, and allows us to reinvest and compound over long periods – a very old-school investing process. **The High Income investment process that is fundamental to our strategy protects capital, creates durable self-healing portfolios, and is responsible for the non-normal distribution of our returns that makes our strategy unique,** with positive skew and high kurtosis (please see our paper [‘The MBS Income Factor’](#) from 10/2019 for details).

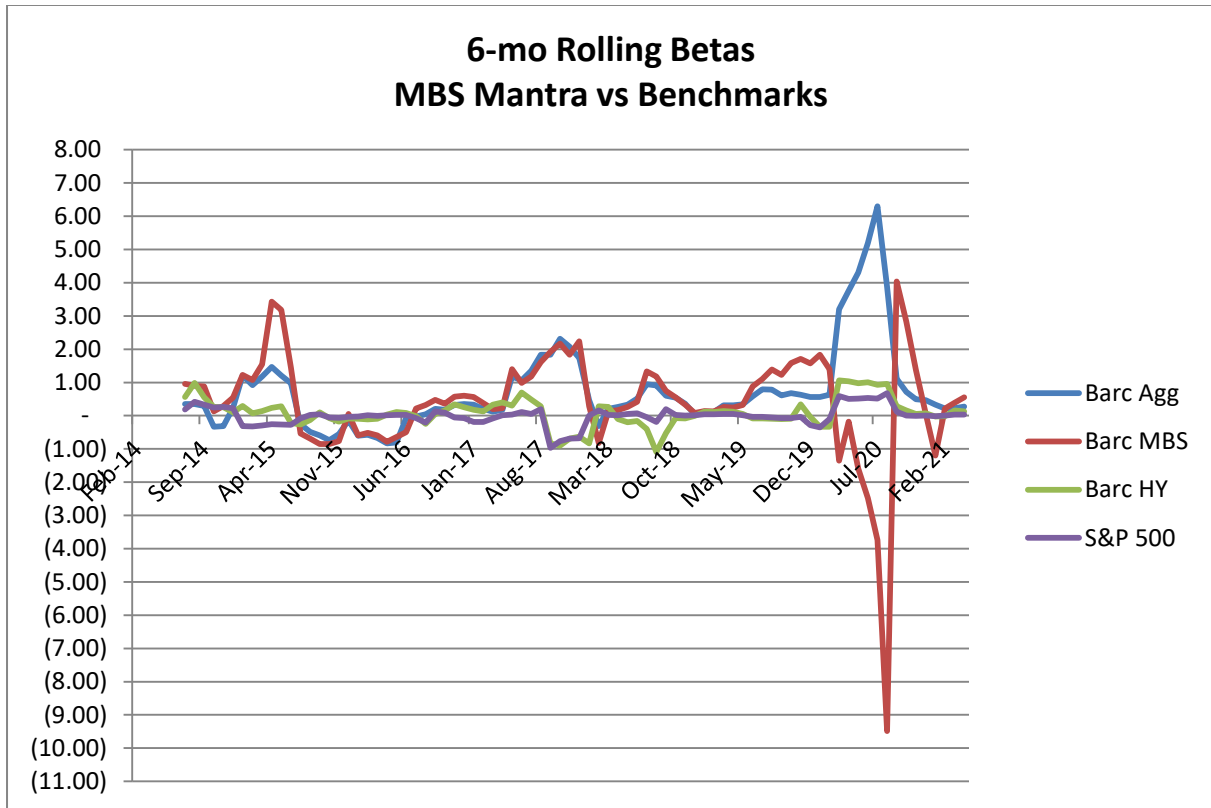
Unlike Fixed Income, that has run its course (with close to 0% returns over the past year), our monthly returns remain high. Unlike MBS Credit strategies, we mostly invest in senior bonds and have very low loss rates, and lower volatility (see our [March 2019 newsletter](#) for a comparison to the credit risk of other MBS funds).

Our Fact Sheet contains a table that summarizes our Beta and correlations with some Benchmarks since inception. **The Betas and Correlations to the Fixed Income/Bond Benchmarks are low, lending credence to our contention that ours is NOT a Fixed Income product (in spite of MBS being bonds), or a bond Credit product, but should have its own Variable Income or Absolute Return category. It makes an excellent diversifier for portfolios.**

Net Returns - performance statistics vs benchmarks (since inception)				
	BM1: Barc Agg	BM2: Barc MBS	BM3: Barc HY	BM4: S&P 500
Alpha (Monthly)	0.4%	0.5%	0.3%	0.3%
Annualized Alpha	4.7%	6.0%	3.3%	4.2%
Beta	0.57	0.20	0.54	0.16
R-Squared	0.09	0.00	0.40	0.13
Correlation	29%	6%	63%	36%

That High Income MBS is not Fixed Income becomes obvious when one observes Rolling Betas to benchmarks over shorter time periods. It is clear that our MBS High Income strategy and portfolios cannot be hedged by Fixed Income products, with the Betas having seesaw-ed over the past year.





Please stay safe, and wishing you good health.

Regards, Samir Shah

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