Catalyst Insights

Market Overview

Senior Residential Mortgage-Backed Securities Asset Class

The potential to generate meaningful yield and returns while diversifying from traditional fixed income risks.

The Case for Legacy Senior Residential Mortgage-Backed Securities

Legacy or seasoned senior Residential Mortgage-Backed Securities (Residential MBS or RMBS) were issued prior to the U.S. housing market collapse in 2007.

Fundamentals

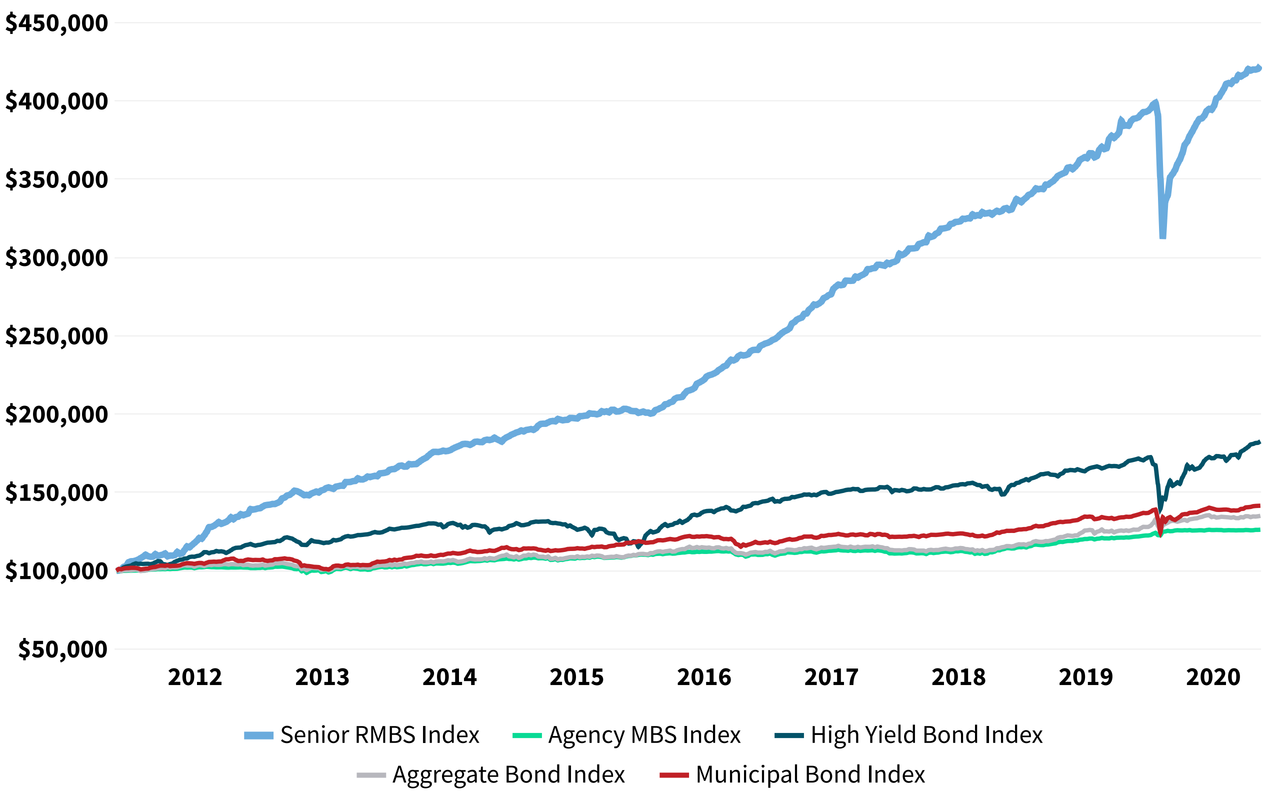
- Backed by residential mortgages, an asset many investors understand
- Provide the opportunity to diversify risk exposure
- Strong, resilient U.S. housing market has supported asset class
- A very large market opportunity where active managers can thrive

Incremental (from seasoned mortgages)

- Provides the opportunity for meaningful additional yield and returns
- Mortgages backing these bonds survived the housing market collapse of 2007 and are still paying today and they also have low loan-to-value
- Possess lower interest rate sensitivity
- Because Legacy Senior RMBS tend to trade at a discount, prepayments can benefit investors

Outperformance of Legacy Senior RMBS

Growth of $100,000: Historical Outperformance of Legacy Senior RMBS
January 2012 - December 2020. Source: Bloomberg



Past performance is no guarantee of future results.

Agency MBS Index represented by the Bloomberg Barclays US MBS Index TR Index and Senior MBS Index represented by the Markit iBoxx Broad US Non-Agency RMBS Index, which tracks senior mortgage bonds from a pool of 22,000 RMBS issued between 2005 and 2007. High Yield Index represented by the Bloomberg Barclays US Corporate High Yield TR Index. Aggregate Bond Index represented by the Bloomberg Barclays US Aggregate TR Index. Municipal Bond Index represented by the Bloomberg Barclays Municipal Bond TR Index.

Key Terms

Asset-Backed Securities (ABS) are financial securities backed by (or collateralized by) pools of assets such as credit card receivables, student loans, automobile loans, mortgages, or other financial assets. ABS are sold to investors and valued based on the regular cash flows generated by the underlying assets.

Mortgage-Backed Securities (MBS), or mortgage bonds, are a class of ABS specifically backed by pools of mortgages. MBS may be backed by pools of residential (Residential MBS or RMBS) or commercial (Commercial MBS or CMBS) mortgages.

Residential MBS Securities Overview

- Residential Mortgage-Backed Securities (RMBS) are mortgage bonds backed by pools of residential mortgages.
- The bonds are issued by either government sponsored entities (Ginnie Mae, Fannie Mae and Freddie Mac) or private institutions such as trusts and special purpose vehicles.
- The bonds tend to have a sophisticated subordination structure which directs cash flows collected from the underlying mortgages to the individual bonds based on a set of rules that are designed to create tranches with specific risk, coupon, and maturity characteristics.
- RMBS bond values/prices are influenced by borrowers' credit as well as broader market and economic factors such as housing market, employment, etc, thereby enabling investors to diversify risk and return in their fixed income portfolios.

There are two common types of MBS:

1. **Pass-Throughs:** Trusts that collect mortgage payments and pass them through to investors.
2. **Collateralized Mortgage Obligations:** Consist of pools of mortgages, and securities are created with different maturities, coupons and risk profiles/characteristics.

RMBS Categories

Agency RMBS are insured by government-sponsored entities such as Federal National Mortgage Association (FNMA or Fannie Mae), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and Government National Mortgage Association (GNMA or Ginnie Mae). Ginnie Mae is the only RMBS backed by the full faith and credit of the U.S. Government while Fannie Mae and Freddie Mac RMBS have the implicit guarantee of timely payment of principal and interest from the U.S. Government.

Not all mortgages meet agency underwriting criteria, and these are referred to as non-agency bonds. The **Senior RMBS** of a deal generally have higher credit ratings at issuance and are entitled to receive cash flows generated by the underlying mortgage loans before **Junior RMBS** of the same deal. As such, Junior RMBS have lower credit ratings at issuance.

- **Jumbo loans** are mortgages that exceed the maximum size allowed by the agencies. These tend to be high credit quality, high earning borrowers. Lenders will typically subject these loans to more scrutiny and require a lower loan-to-value ratio (LTV), meaning the borrower must put up a higher down payment than on a conventional loan.
- Self-employed individuals, including many business owners, often are excluded from conventional loans and therefore must get a **non-qualified mortgage.** As is the case with jumbo mortgages, these borrowers are typically high credit quality, and the loans are subject to more scrutiny and require a lower LTV.

RMBS Return and Risk Summary

	Agency RMBS	Legacy Senior RMBS	Legacy Junior RMBS
Backed by pools of residential mortgages	Yes	Yes	Yes
Implicitly backed by U.S. government	Yes	No	No
Potential for higher yield	No	Yes	Yes
High exposure to interest rate risk (generally)	Yes	No	Yes†
High exposure to credit risk (generally)	No	No	Yes
Exposure to housing market risk (generally)	Yes	Yes	Yes
Exposure to prepayment risk (generally)	Yes	No	No
Potential for prepayment opportunity (generally)	No	Yes	Yes
Annualized Return	2.66%	17.38%	n/a*
Annualized Risk	2.43%	5.64%	n/a*
Return per Risk	1.09	3.08	n/a*
Potential for active manager to add value	Less Potential	More Potential	More Potential

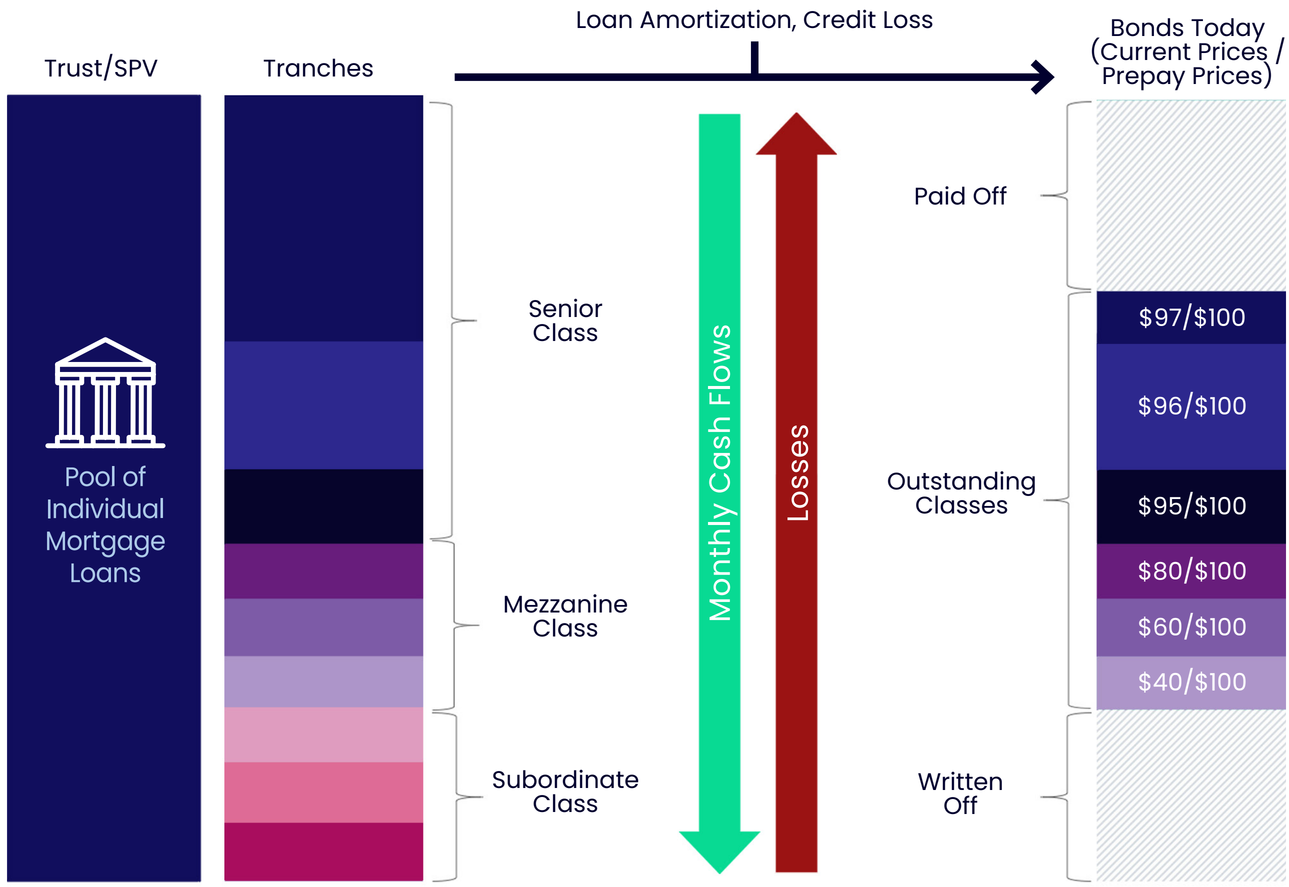
January 2012 - December 2020

Source: Bloomberg

†With a lower interest rate, there will be an increased Excess Spread to "cover" loss that would otherwise be allocated to the junior most tranche and higher prepay thereby shortening the average life and thus increasing yield. The opposite happens with higher rates.

*There is no readily available reference index for Junior RMBS.

Example Non-Agency RMBS Structure



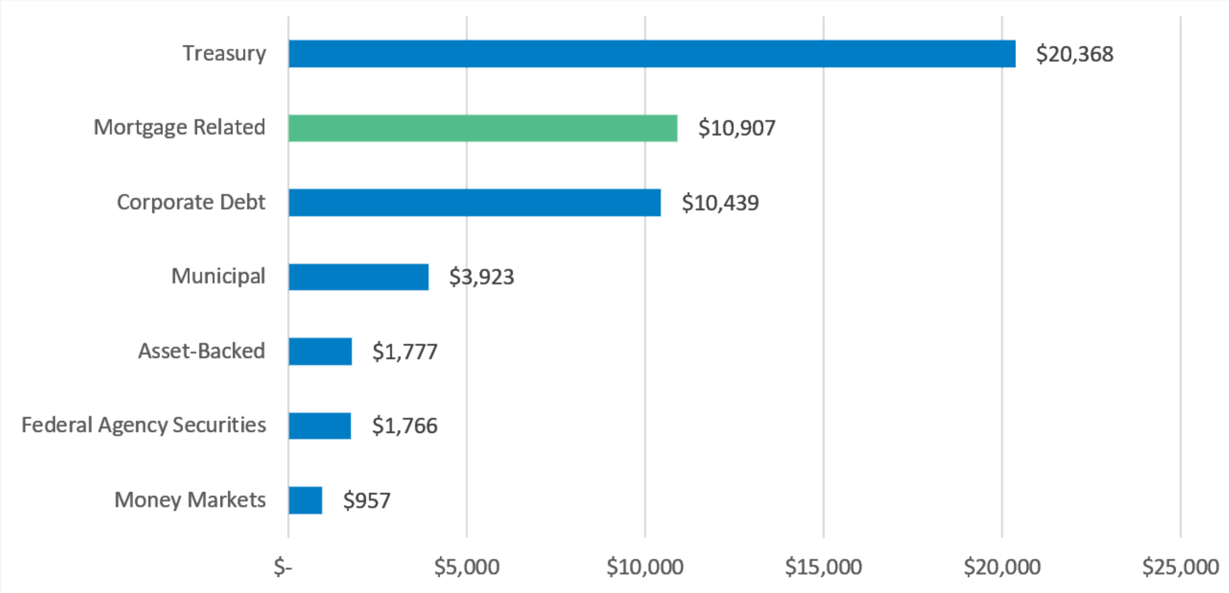
Why Consider an Allocation to Senior RMBS?

- Meaningful yield and risk-adjusted return potential
- Can diversify from (and lower exposure to) traditional fixed income risk factors such as interest rate risk and credit risk
- Many mortgage bonds possess floating rate features, limiting interest rate risk for investors
- Legacy bonds are generally backed by homeowners with high equity that have survived one of the worst housing markets in history and therefore may reduce credit risk
- A strong U.S. housing market has the potential to support strong returns of the asset class going forward

Why Invest in Senior RMBS?

Mortgage-Related Securities Outstanding Surpass the Corporate Bond Market

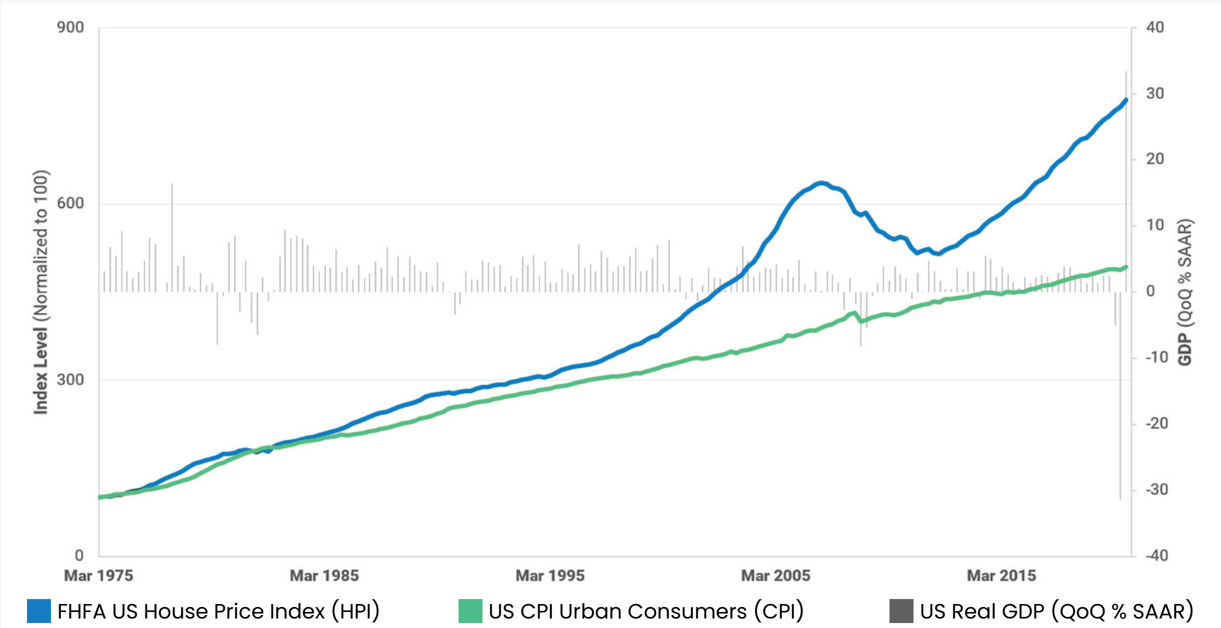
U.S. Fixed Income Outstanding as of Q3 2020 (in $ Billions)



As of December 2020

A Strong Housing Market Supports the Ongoing Outperformance of the RMBS Asset Class

U.S. Home Prices Outperformed Inflation and Generated Strong Returns Even During Most Recessionary Periods



Source: Bloomberg LP and Rational Advisors, Inc. as of September 30, 2020 (based on available data). Based on quarterly return data since March 31, 1975 for the following indexes: HPI LEVL Index, CPI INDX Index, and EHGDUS Index. FHFA US House Price Index and US CPI Urban Consumers Index normalized to 100 on March 31, 1975 for comparison purposes. Investors cannot invest directly in an index, and index returns do not reflect the impact of any fees or expenses. Past performance is no guarantee of futures results.

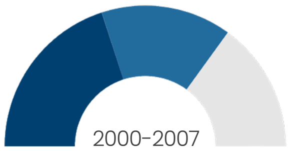
Legacy Senior RMBS

Legacy or seasoned senior RMBS were issued prior to the U.S. housing market collapse in 2007. Today, these bonds are supported by a resilient housing market, are backed by seasoned mortgages with lower LTVs, possess low interest rate sensitivity, and can benefit from refinancing/ prepayment because they tend to trade at a discount.

Hypothetical Mortgage Loan-to-Value (LTV) as of December 31, 2019

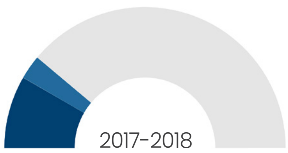
Based on Market Index Data

42%-71%



Homeowner Equity for Homeowners that purchased in 2000-2007 in this scenario

16%-22%



Homeowner Equity for Homeowners that purchased in 2017 or 2018 in this scenario

Mortgage Issuance Year (December 31)	Years Paid	Interest Rate	Loan Balance as % Original Face Value	Home Value as % Original Value	Estimated Loan-to-Value (%)
1999	20	7.82%	60%	201%	27%
2000	19	6.85%	61%	188%	29%
2001	18	6.74%	64%	175%	33%
2002	17	5.53%	63%	164%	35%
2003	16	5.47%	66%	153%	39%
2004	15	5.36%	69%	139%	45%
2005	14	5.70%	73%	125%	53%
2006	13	5.75%	76%	120%	57%
2007	12	5.79%	79%	121%	58%
2008	11	5.26%	80%	130%	55%
2009	10	5.33%	82%	137%	54%
2010	9	4.99%	84%	140%	54%
2011	8	3.94%	84%	145%	52%
2012	7	3.40%	85%	144%	53%
2013	6	4.54%	89%	138%	58%
2014	5	3.99%	90%	131%	62%
2015	4	3.90%	92%	125%	67%
2016	3	4.06%	95%	118%	72%
2017	2	3.85%	96%	111%	78%
2018	1	4.51%	98%	105%	84%

Key Assumptions

1. 30-year fixed rate mortgage (for calculation simplicity only; many bonds are floating rate)
2. Prevailing interest rate
3. 90% LTV at origination
4. Home value increase in line with Home Price Index

These assumptions are used to present how LTVs improve with improving housing fundamentals and bond seasoning and do not represent any actual LTVs.

Source: Bloomberg LP and Rational Advisors, Inc. as of December 31, 2019. Based on monthly data since December 31, 1999 for the following indexes: HPI LEVL Index (FHFA US House Price Index) and ILM3NAVG Index (Bankrate.com US Home Mortgage 30 Year Fixed National Average). Investors cannot invest directly in an index, and index returns do not reflect the impact of any fees or expenses. Past performance is no guarantee of futures results.

Legacy versus Newly Issued Mortgage Bonds

	Legacy Senior RMBS	Senior RMBS 2.0 (Newly Issued)
Backed by mortgages with more than a decade of payment history	Yes	No
Homeowners have been tested during the worst housing market crisis and are still paying today	Yes	No
Homeowners tend to have lower loan-to-value ratios	Yes	No
Mortgage bonds tend to trade at more of a discount and can benefit from prepayment	Yes	No
Mortgage bonds tend to offer higher yields and return potential	Yes	No

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Important Risk Considerations

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The referenced indices are shown for general market comparisons and are not meant to represent any fund. Investors cannot directly invest in an index; unmanaged index returns do not reflect any fees, expenses or sales charges.

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