



Asset Allocation for Practitioners

STRATEGOS DEEP VALUE COMPOSITE FUND

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FUND SUMMARY

Based: Philadelphia,
Pennsylvania, USA

Domicile: Ireland

AUM: \$449M

Wholly owned
subsidiary of
Institutional Financial
Markets Inc (IFMI) until
March 28, 2011 →
Same Portfolio Manager
managing Funds &
SMAs in Composite

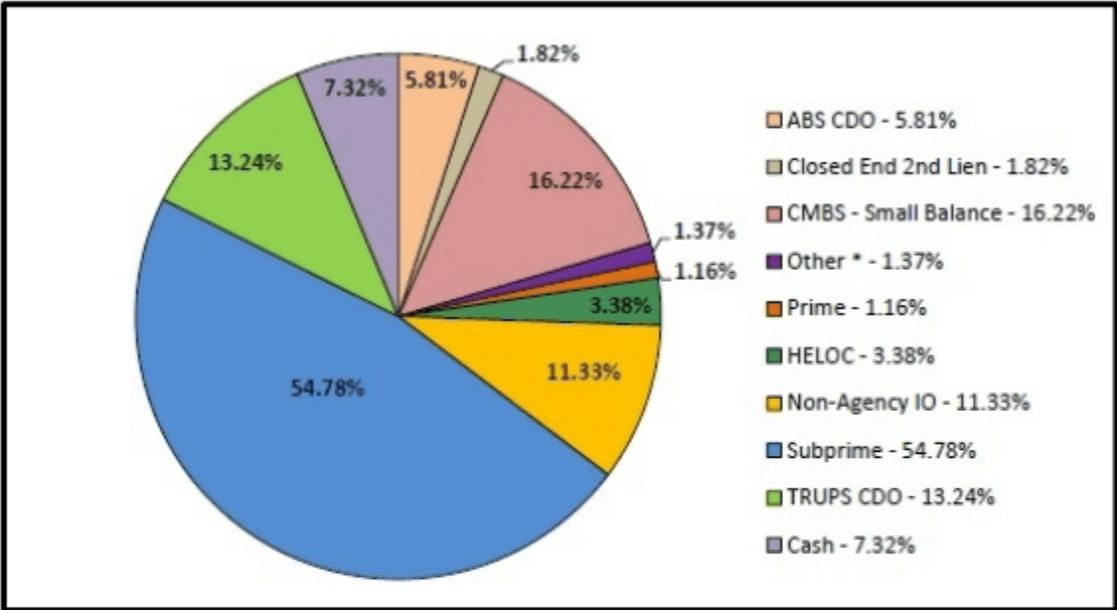
Sector Focus: Non-
Agency RMBS,
Subprime, HELOC,
TRUPS CDO, Non-
Agency IO

Strategy: Bottom-Up,
Fundamental
Analysis, Seasoned
products, lower LTVs





PORTFOLIO HOLDING & MANAGEMENT



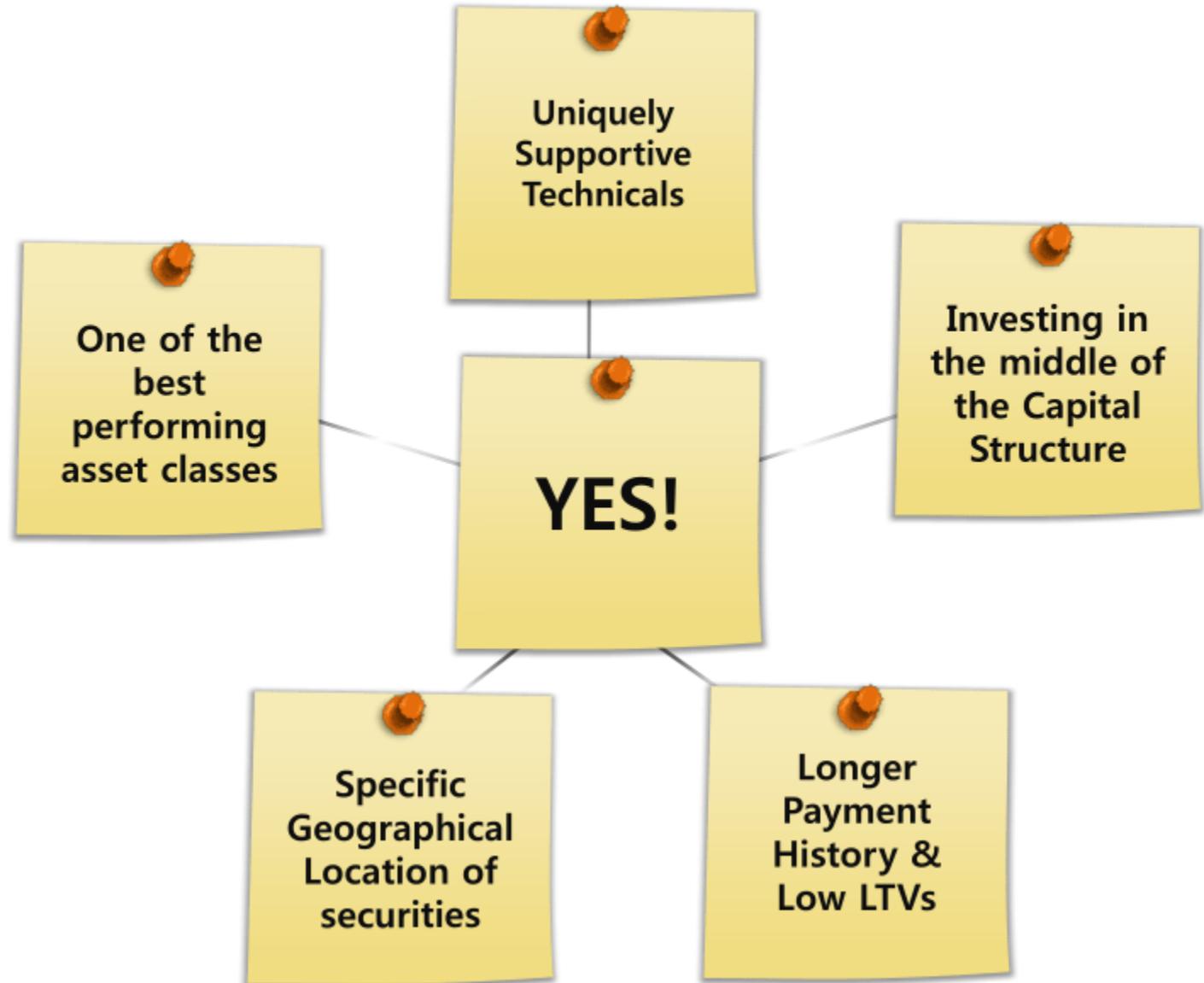
Sector Breakdown

Portfolio & Risk Managers





TO INVEST OR NOT TO INVEST?





CIRCUMSTANCIAL ADVANTAGES

• **Increasing Interest Rate Environment**

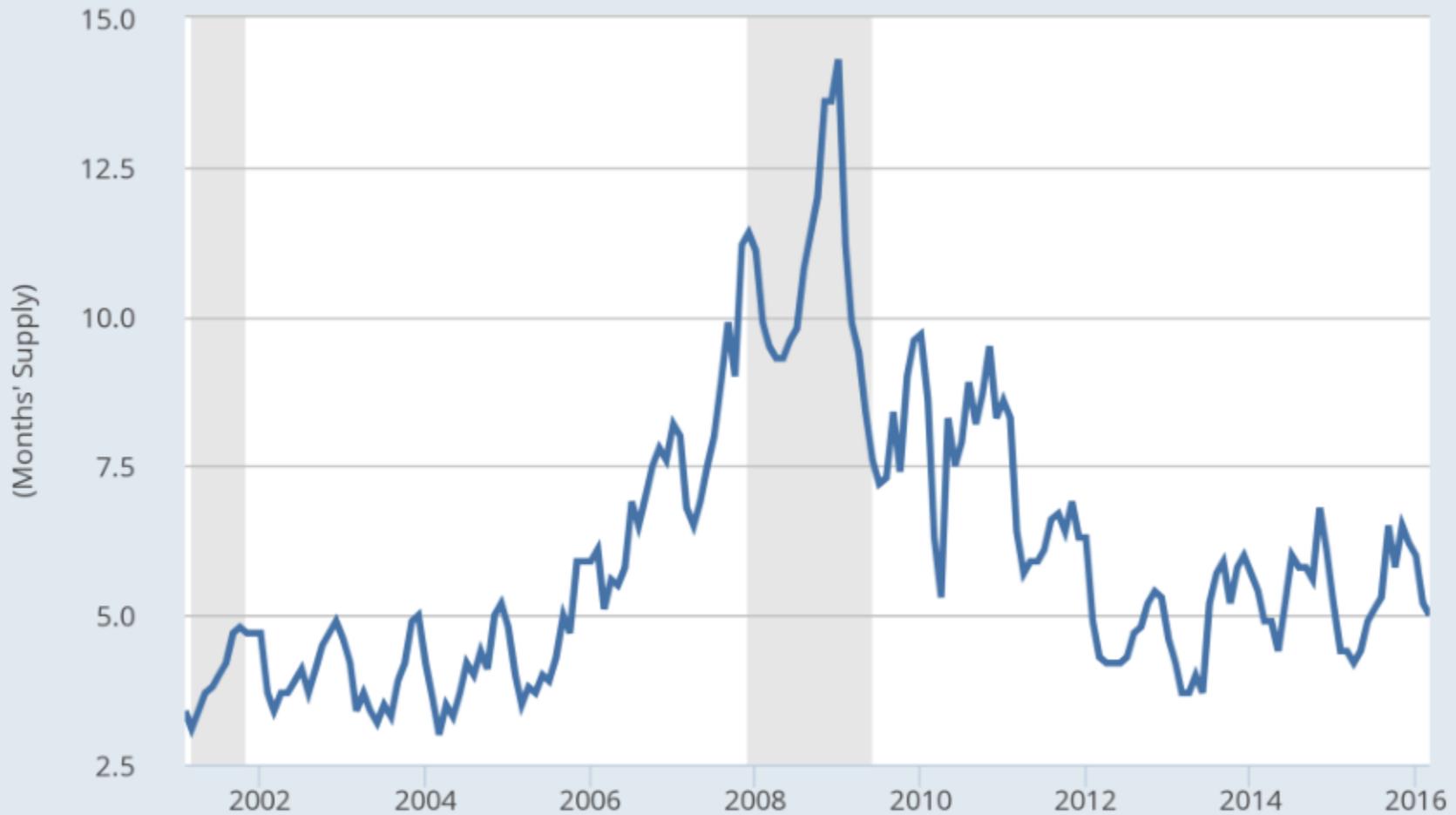
• **Improving Housing Market**

• **Sound Macroeconomic & Market Fundamentals**

• **Understanding of the Mortgage Market → Adequate compensation for bearing risk**



Monthly Supply of Houses in the United States



Source: US. Bureau of the Census
research.stlouisfed.org

myf.red/g/4pWC

Source: FRED



FUND STRENGTHS





FUND RED FLAGS

• **Structural & Public Policy Risks**

• **No mechanism to factor in the 2nd liens to have a better picture of the Combined LTV (CLTV)**

• **Fund managed by same guys who built the first structures of the CDOs. SubPrimes were first to go bust in GFC → re-packaging the product**

• **Industry is at \$650B, unlike 2008 when it reached peak at \$2.1 Trillion → Industry reducing @ 10-15% per annum**

• **Do not designate the exact ratings of their holdings → 93% of bonds originally rated AAA (2008) are now rated below investment grade**

SDVF v/s Markit iBoxx US Non-Agency RMBS TRIndex



Source: Bloomberg

SELLS-IFs



Key members → Alex & David

Major external shocks

Fundamental changes in macroeconomic indicators

Policy changes of the Fund

CONCLUSION

Cash Distribution Model Flows → Source of Risk & Opportunity

While difficult to directly stress test bonds under policy scenarios → add potential interest rate increases when modeling. We model cash flows under a variety of assumptions accounting for different assumed prepayment, default, and loss severity rates.

Mortgage servicers are key players in the MBS sphere → Collect payments from borrowers and can advance on delinquent loans → Relationship with agents is key.

Monthly reporting is provided by their 3rd party administrator. Provides a technical stratification of the portfolio and other relevant statistics on the underlying bonds.

Illiquidity in the portfolio is managed via Cash Flows generated

Opportunities → Hedging & Leveraging if market does not expand + Re-REMICs + entering seasoned post 2006 securities





THANK YOU