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ASSET MANAGEMENT, LLC

Fixed Income Strategy

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Fixed Income Strategy

The Predicament….Risk With Scant Return…

- Globally, Interest rates are artificially low.
  - U.S. Treasury 10-years are yielding 2%.
  - European bond yields in many cases are *negative*.
- After an extended bull market, credit spreads are tight.
  - U.S. junk bonds (BB rated) are yielding 4.25% versus a longer-term average of over 7%.
  - The leveraged loan market has exploded in the past few years, with over 40% of corporate debt now junk rated.
  - The proportion of "zombie companies", or publicly traded companies which are not covering their interest obligation, is at inflated levels.

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A more yieldy and shorter duration alternative:

Non-agency mortgage bonds

- Non-agencies are pools of mortgages from 2007 and prior.
- Non-agencies have more regular cash flows than typical bonds since both interest and principal is paid monthly.
- We have earned stable, above market returns on this asset class and continue to find similar levels of risk on new purchases.

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We have been investing our fixed income dollars primarily in seasoned mortgage bonds for the past 8 years:

- Wall Street ceased packaging and selling mortgage securities after 2007, and since then has sold most conforming mortgages to Fannie and Freddie.
- The entire asset class is essentially in "slow liquidation" and gets less attention from investors.
- We purchase smaller "odd-lots" of these mortgages, at advantageous prices.
- We only purchase pieces which are highly resilient to stressed scenarios of defaults and liquidations.
- We are typically able to obtain safe, resilient mortgage bonds at, on average

6% yields and 4 year average lives.

- Since the non-agency mortgages were issued 12 years ago, the underlying loans are highly seasoned and the homes have typically built substantial equity.

We believe the risk/reward on legacy non-agency mortgage bonds is superior to other fixed income alternatives out there.

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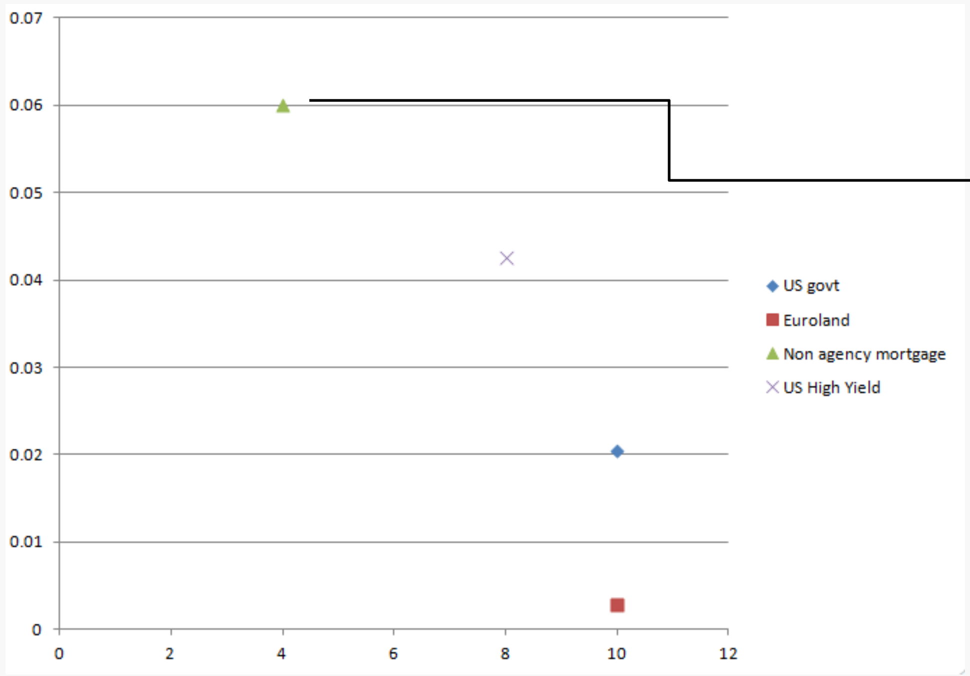


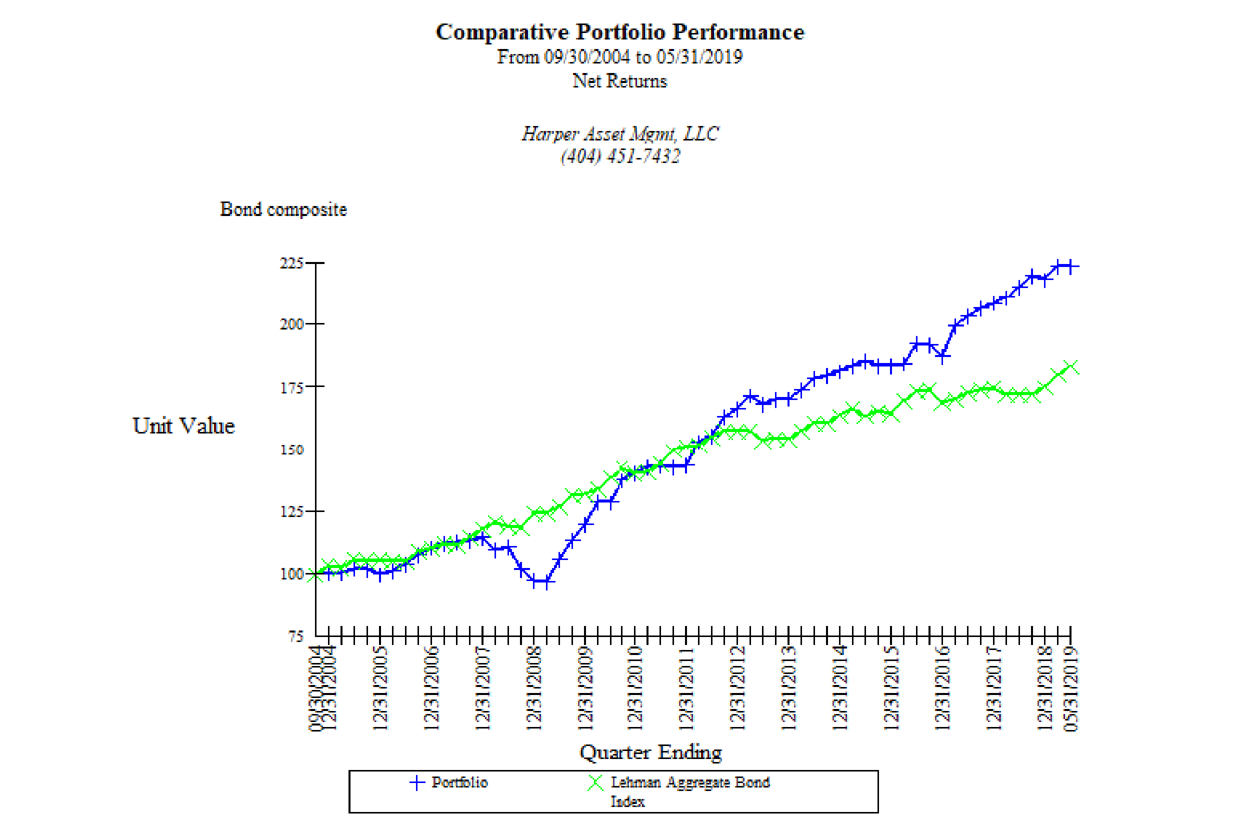
Yield

Term Risk

6% yields/4 yr average lives on clean, legacy mortgage bonds

Fixed Income Strategy

Historical Performance



<u>15 year Annualized</u>
HAM Bond: 5.64%
Lehman Index: 4.22%

*Past performance is no guarantee of future results. HAM Bond results are net of fees.

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Professionals

Portfolio Management & Research

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Portfolio Management/Analysis
20 years investment experience

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