

Two Harbours

**November 13, 2019
9:00 am ET**

Operator: Good morning. My name is James and I will be your conference facilitator today. At this time, I would like to welcome everyone to Two Harbours Third Quarter 2019 Financial Results Conference Call. All participants will be on a listen-only mode. After the speakers' remarks, there will be a question-and-answer period. I would now like to turn over the call to Maggie Field with Investor Relations for Two Harbours.

Maggie Field: Thank you, and good morning, everyone. Thank you for joining our call to discuss Two Harbours' third quarter 2019 financial results. With me on the call this morning are Tom Siering, our President and CEO, Mary Risky our CFO; and as Bill Roth is transitioning his CIO duties, we will have Matt Koeppen and Bill Greenberg, our co-Deputy CIOs, join us to comment on our portfolio performance and investment opportunities.

After my introductory comments, Tom will provide an overview of our quarterly results and long-term strategy; Mary will highlight key items from our financials; and Matt and Bill will review our portfolio performance.

The press release and financial tables associated with today's call were filed yesterday with the SEC. If you do not have a copy, you may find them on our website or on the SEC's website at sec.gov. In our earnings release and slides, which are posted in the Investor Relations section of our website, we have provided a reconciliation of GAAP to non-GAAP financial measures. We urge you to review this information in conjunction with today's call. I would also like to mention that this call is being webcast and may be accessed on our website in the same location.

Before I turn the call over to Tom, I would like to remind you that remarks made by management during this conference call and the supporting slides may include forward-looking statements. Forward-looking statements are based on the current beliefs and expectations of management and actual results may be materially different, because of a variety of risks and other factors. Such statements are typically associated with the words such as "anticipate, expect, estimate and believe" or other such words. We caution investors not to rely unduly on forward-looking statements.

Two Harbours describes these risks and uncertainties in its Annual Report on Form 10-K for the fiscal year ended December 31, 2018, and in other filings it makes or may make with the SEC from time to time, which are available on the Investor Relations section of Two Harbours website

and on the SEC's website at sec.gov. Except as may be required by law, Two Harbors does not update forward-looking statements and expressly disclaims any obligation to do so.

I will now turn the call over to Tom.

Tom Siering:

Thank you, Maggie, and good morning, everyone. We hope that you've had a chance to review our earnings press release and presentation that we issued last night.

Please turn to slide 3 to review our results. We had a very strong quarter and generated significant book value growth delivering a total quarterly return on book value of 6.7%. For the first nine months of the year, we have achieved a 22% return on book value. This was an interesting quarter, in respect to market conditions, including the disruption of the repo market, interest rate volatility and prepayment behavior.

Preserving book value is always been our primary goal and we are quite proud of our economic return in this environment. This quarter demonstrates how our portfolio can deliver strong returns, even when interest rates are volatile and mortgage spreads widened. This is largely driven by our strategy of pairing MSR with Agency RMBS.

Core earnings were \$0.24 per share, which is materially lower than our dividend. We acknowledge this divergence, though we have consistently communicated that Core Earnings is not a proxy for our dividend. Rather, total economic return is a much more important metric.

As such, there are times when we will emphasize generating economic returns over Core Earnings, which was the case this quarter. With a large amount of capital allocated to MSR, in certain interest rate environments it is not possible to simultaneously generate both high Core Earnings and optimize economic return.

Since stable book value is necessary for generating stable dividends, we will unhesitatingly choose the preservation of book value over the marquee number of Core Earnings and making investment management decisions.

This quarter highlights that the economic return of our portfolio was more than sufficient to support the dividend. Today we are confident that our \$0.40 dividend is supported by both the expected ongoing earnings power of our portfolio, as well as by taxable income generation.

When we set our current dividend in the second quarter, we were thoughtful in considering sustainability, expected economic return, effect on book value and taxable income. All of these factors continue to support that level. As always, all future dividends remain subject to the discretion and approval of our Board of Directors.

Please turn to slide 4. Through thoughtful portfolio construction, security selection and active hedging we aim to protect and grow our book value over time. We position our portfolio and assets that we believe will deliver the best long-term risk-adjusted returns. This approach is resulted in strong performance this quarter and since our inception.

You can see on this slide that over the past 10 years, we have returned over 200% to our stockholders as measured by the change in stock price with dividends reinvested. During this same period of time, we have grown our book value by nearly 12%. We are quite proud of these results both this quarter and over time, as they represent quite an outlier over our peer cohort.

I will now turn the call over to Mary to review our financial results.

Mary Risky:

Thank you, Tom. Turning to slide 5, let's review our financial results for the third quarter. We generated comprehensive income of \$257.6 million, or \$0.94 per share and our book value was \$14.72 per share, compared to \$14.17 at June 30. The increase in book value was driven primarily by our portfolio allocation within Agency RMBS, and the outperformance of specified pools. MSR performed as expected given the current coupon spread widening experienced in the quarter.

Moving to slide 6, let's spend a moment on our Core Earnings results. Core earnings, including dollar roll income were \$0.24 per share in the third quarter. The decrease in Core Earnings this quarter was primarily driven by elevated funding cost, higher RMBS amortization due to faster prepayment speeds, and portfolio rotation. You can see on this slide a high level attribution of the quarter-over-quarter Core Earnings decrease. Approximately \$0.04 of the decline was driven by increased premium amortization on Agency RMBS, due to higher prepayment speeds \$0.03 is due to the sale of higher-yielding non-Agency RMBS and \$0.06 was the result of lower TBA dollar roll income from higher-implied financing costs, and prepayment speeds.

Additionally, in aggregate the elevated repo LIBOR spread on Agency RMBS and TBA as compared to the spread at the end of 2018 resulted in a \$0.05 drag on Core Earnings in Q3 compared to a \$0.02 drag in Q2. While we expect the elevated spread environment to continue into 2020, I would note that in the last two quarters current coupon mortgages have cheapened relative to LIBOR even more than the repo funding costs have increased.

While portfolio rotation resulted in a drag on our quarterly Core Earnings, it strengthened the economic earnings power of our portfolio. Specifically, we sold some legacy non-Agencies, and recycled that capital into current coupon Agency RMBS, which had cheapened. In particular, the non-Agencies that we sold had realized their upside potential and had only mid-single-digit levered market yields, but had very high book yields. In contrast, the current coupon Agency RMBS that we purchased have low to mid-double-digit levered market yields.

Turning to slide 7. Our portfolio yield declined in the quarter to 3.67%. The lower yield was driven primarily by our portfolio rotation and increased premium amortization. You can see the yield on non-Agency securities declined from 6% to 5.26%, reflecting the sales of higher dollar priced legacy non-Agencies. The lower Agency yield was a result of the aforementioned purchases of lower coupon RMBS in a lower interest rate environment as well as increased amortization due to higher prepayment speeds.

Let's review our financing profile as shown on slide 8. Our average economic debt to equity, which includes the implied debt on our TBA positions, was consistent quarter-over-quarter at 7.2x. We are comfortable with our leverage and do not expect it to change materially from here. Our diverse financing profile includes a mix of traditional repo, convertible debt, revolving credit facilities, and MSR secured term notes.

At September 30, we had 24 active Agency repo counterparties with a weighted average maturity of 77 days. Our longer-dated maturities benefited us during the spike in overnight repo rates late in the quarter and we did not observe significant disruptions to our financing. We continue to monitor the repo markets closely and are focused on managing the laddering of our repo maturities to minimize exposure, changes in spreads and rates. With respect to non-Agencies, haircuts and spreads have continued to be favorable.

As we have discussed in the past, we have been modest in our use of our Federal Home Loan Bank facility, due to the fact that we continue to be able to access more attractive terms in the repo

market even with current conditions. However, given the stress in the repo market that we saw this quarter, we may make greater use of that facility in the future. As a reminder, our Federal Home Loan Bank facility expires in 2021.

Across all of our MSR bilateral facilities, we had \$563 million outstanding, with a total capacity of \$790 million as of September 30. This is in addition to the \$400 million of outstanding MSR term notes. These facilities and notes are multiyear in term and therefore have been unaffected by the volatility in the overnight and short-term repo markets. For more information on our financing profile please see appendix Slide 25.

With that, I will now turn the call over to Matt and Bill for a markets overview and portfolio update.

Matt Koeppen:

Thank you, Mary. This is Matt, and good morning everyone. Please turn to Slide 9. The third quarter ended up being very similar to the second quarter, where rates fell, current coupon RMBS widened, and Agency specified pools outperformed. Performance attribution for the quarter also largely mirrors that of the second quarter.

Higher coupons outperformed by as much as a full point in our specified pool position increased in value as the demand for prepay protected collateral increased further. Although MSR performed as expected, its price performance reflected the widening of the current coupon in the quarter. Since MSR behaves like a short position in the current coupon, this widening contributed positively to our performance.

On Slide 9, you can see some performance metrics for Agency RMBS in the quarter. The chart on the bottom left shows that the current coupon mortgage spread has widened by 27 basis points in the third quarter alone and by 35 basis points over the last two quarters. This reflected heightened prepayment fears surrounding more newly originated mortgages which are the most reactive to lower rates.

It's important to note that while funding spreads have become more costly to the tune of 15 to 20 basis points, the magnitude of the current coupon widening created more attractive net spreads and by some measures of valuation stand at five to 10-year wides. The chart on the bottom right shows the price performance of TBA contracts during the quarter.

As you can see, lower coupons underperformed and higher coupons outperformed. Our portfolio was well positioned for this price action, as we held long positions in higher coupons and had an effective short position through our MSR holdings. The returns associated with our rate strategy contributed roughly 75% of our overall book value performance.

Before leaving this slide, I'd like to spend a moment on the topic of the repo markets in the third quarter. While the economic impact of higher funding costs is real, as Mary discussed, the issue seems to be one of price and not of availability as counterparties are still more than willing to provide funding. This issue has been more acute for Agency securities. We continue to see financing spreads on non-Agencies to be well bid. While we believe that the elevated Agency funding costs will persist into the New Year, we think that the issues are temporary and will resolve themselves over time.

Turning to Slide 10. Our credit portfolio continues to perform well as lower rates have resulted in better cash flow performance and higher prepayment speeds. We also believe that increasing affordability can be a significant driver of total return performance for our legacy assets in the

future. While 10-year Treasury rates have fluctuated in a 200 basis point range since 2014, the effects of mortgage rates and income growth have conspired to keep overall affordability in a narrow range.

As you can see in the bottom-left chart, affordability currently sits right at 210 which is the average over the time period shown. This should allow for increased mobility higher prepayments and better overall expected returns. The bottom-right chart on Slide 10 shows the realized loss severities in our portfolio compared to the broader subprime cohort. The overall trend of falling severities over time is another source of improved security performance. We consider it notable that our portfolio has consistently realized lower severities than the overall cohort. Interestingly, because of the interplay between low rates and excess spread, discount margins in our portfolio actually widened, even as we generated positive results, so that the prospective returns on our portfolio improved during the quarter. Overall, our credit strategy performed well and contributed approximately 25% of our overall book value performance.

I'll now hand it to Bill.

Bill Greenberg:

Thank you, Matt. Good morning, everyone. Moving to Slide 11, let's review our portfolio and positioning, which at September 30 was comprised of \$30 billion of assets and about \$9.9 billion of net long TBAs. From a capital allocation perspective, 79% of capital was allocated to our rates strategy and 21% to credit. While we do find pockets of opportunity in legacy credits, we continue to find new credit sectors unattractive. As such, we generally expect our capital allocation to continue to drift away from credit and towards rates over time.

Our portfolio activity is summarized at the top of this slide. As current coupon mortgages cheapened, we believed they looked very attractive and therefore we moved roughly \$8 billion in mortgage risk from higher coupons into lower coupons. I would note that current coupon mortgages look attractive to us, despite the higher funding costs resulting from the dislocation in the repo market.

Again, the 15 to 20 basis points of increased financing cost is more than offset by the 35 basis points of cheapening in the current coupon that we have seen over the last six months.

Prospective returns therefore are even slightly higher, in the low to mid-double digits, than they were at the end of the first quarter. Assuming issues in the repo market resolve themselves, declining funding costs should be a further tailwind to future performance of current coupons.

Activity in the MSR market has been muted but is showing signs of picking up. The volatile rate environment this year has made it harder for buyers and sellers in the bulk market to agree on prices and many packages that have come to market ended up not trading.

Nevertheless, we did purchase two MSR packages in the third quarter that closed just after quarter-end, totaling approximately \$11 billion UPB. On the flow MSR side our volumes are also picking up and we acquired \$5.8 billion in new flow origination in the quarter. We are expecting to add several more flow sellers to our network adding to our quarterly flow volumes.

Finally, we entered into an agreement to sell all of our newly delinquent MSR on a flow basis. Although delinquencies on our MSR portfolio are small, running about 30 basis points, the time and attention required to properly service those loans was disproportionate and we will benefit from the resulting increased efficiency in our platform.

In our credit strategy, we continued to be opportunistic in adding low dollar priced bonds. During the quarter, we purchased approximately \$190 million of legacy non-Agencies, which at an average price of \$64 contain various options that could allow for higher returns.

We also sold approximately \$500 million of bonds at an average price of \$96. We felt that these securities which we had purchased at an average price of \$52 had fully realized their upside potential. As time goes on, we expect more of our legacy assets to reach their upside potential. At which point we will sell them and recycle the capital into the best opportunities available at that time.

Matt Koeppen:

Please turn to Slide 12 for a discussion of our risk profile. As you can see on this slide, our exposure to changes in interest rates and mortgage spreads remain small. We maintain a slightly long duration bias, increasing 1.4% in a down 50 basis point shock and losing 4.8% in an up 50 shock. Relating to mortgage spreads, our portfolio sensitivity shows that we would lose only 1.3% if MBS spreads widen by 25 basis points, as shown in green on the bottom-right chart, which is helped by the presence of MSR in the portfolio.

If we didn't have any MSR we would lose 4% in a 25 basis point widening as shown in blue in the chart. As we mentioned earlier, our performance benefited from being short to current coupon through the MSR position and from having a bias for higher coupons. As we rotated from higher coupons to lower coupons, flattened out this exposure, so that not only did we buy assets that we thought were very attractive but we also reduced our risk to variations and spreads between coupon. We are now largely flat to current coupon with residual mortgage exposure spread uniformly across the rest of the stack.

Bill Greenberg:

Please turn to slide 13. In summary, this quarter highlighted the benefits of our strategy of hedging Agency RMBS with MSR: we can provide strong economic returns with lower exposure to mortgage spreads.

Though our active portfolio management had the effect of lower Core Earnings, it drove book value higher and improved the expected economic return profile of our business. We hope that our results this quarter show that Core Earnings is not always the best measure for evaluating the returns that we can deliver to stockholders.

We view the best investment opportunities currently to be in pairing Agency RMBS with MSR, and expect capital allocated to our rate strategy to grow in the near-to-intermediate term. In that strategy, we expect returns to be in the low to mid-double digits.

In our credit strategy, current prospective returns are in the high single-digits but with the possibility for greater total returns in the future. While we shouldn't expect to see a 20% economic return annually again, we do believe that today we are generating returns in the low to mid-double digits

Before closing, I'd like to make a few comments about GSE reform. First, we think it's generally helpful to the mortgage market for the Treasury and the FHFA to be supportive of an explicit guarantee of RMBS securities. Secondly, to the extent that many of the recommendations require legislative solutions, we are pessimistic on the prospect of any meaningful progress being made in Congress, certainly before the election and probably after as well.

Third, while Director Calabria has the authority to re-privatize the GSEs on an administrative basis, we expect that this will only occur once the entities are sufficiently capitalized, which is likely to be a multi-year process.

Finally, to the extent that other administrative reforms take place, such as reducing the GSE footprints, we generally believe that such changes will have a small positive effect on our business as the supply of available Agency RMBS declines and the potential for non-Agency investments increases.

In general, while we are following developments very closely, we are of the opinion of the effects on our business are expected to be small. In conclusion, we believe that we have positioned our portfolio and hedges to continue to provide book value stability and generate consistent economic returns with less volatility.

I'll now turn the call back to the operator for Q&A.

Operator: [Operator Instructions] We'll now take our first question from Mr. Doug Harter. Please go ahead. Your line is now open. Pardon, my mistake that's Bose George.

Bose George: Hey. Good morning. Actually the first question is just on book value since quarter-end, have you guys seen much change there?

Tom Siering: Hey, Bose. Matt is going to handle that one. Thanks and good morning.

Matt Koeppen: Yeah. Good morning, Bose. We've seen a modest decrease in book value in October on the lines of about 1%. So far, having said that, it's very early in the quarter as you know, so we'll see how the rest of the quarter plays out.

Bose George: Okay. Great. Thanks. And then, just to understand your comments about Core Earnings versus economic return and we're seeing very good job with the economic return. But, when we think about Core Earnings sort of bit of a normalizing, is that -- is kind of the main thing to look for as slowdown in prepayments or just can you walk through that little bit?

Tom Siering: Well, sure. Yeah. I have a couple of comments Bose. And then I think I'll hand to Bill -- in respect to Core Earnings. I mean this obviously is a kind of an unusual quarter for Core Earnings. Book value and total economic return performances were very robust and very outsized-- and I think truly an outlier versus the peer cohort.

One thing that we want to remind the market that the Core Earnings are not a proxy for the dividend. We consistently said that we have a history that we look at things like the earnings power of the portfolio. And Bill spoke to that, about what we're seeing in the market today. We think about sustainability of the dividend. Obviously we have not been in the business of setting a new dividend one quarter and then change it in the next. We're thoughtful in what we see prospectively. We think about the impact on book value. And then, lastly and very importantly, obviously we're subject to REIT rules and so taxable income is a much more powerful metric of the dividend than Core Earnings. Also the thing that I would point out is that we had a 6.7% total economic return for the quarter. And as we said in -- a few minutes ago approximately 75% of that came from via Agency book. And so given that we paid out approximately 3% dividend, obviously we earned the dividend if you will and then some. And then lastly I would say that one thing that we're quite proud of which is in an outlier with in the -- our sector is that we have grown book value over time. And so obviously we've not been in the business of overpaying the

dividend. Core Earnings as defined, I would say, two things -- if factors in the fourth quarter in respective prepayments, the repo market etcetera those persist into the fourth quarter or throughout the fourth quarter you should reasonably expect that to impact Core Earnings again. That being said, we feel very good. We're not very obsessed, honestly, with Core Earnings. What we're obsessed with is making shareholder's money that's what we consider to be our business. And so we don't really [inaudible] Core Earnings. We are very interested in doing things that are smart for investors.

One thing that I'll touch on that Bill talked about and I'll give you a very good example about how there's a trade-off between Core Earnings and total economic return. This is I guess by way of example sort of low-hanging fruit of -- Bill mentioned that we sold a lot of non-Agency bonds that we bought in the 50s and we sold them in the mid-90s. From a Core Earnings perspective you would never do that because those are on the books that legacy accounting yields are much fatter than replacement. And so those are ongoing 11% and 12% accounting yield. And so if you're just trying to pretty up Core Earnings, if you will, you would never sell those bonds. You would hold on to them. Now that as we sold them at I believe Bill said 96 dollar price. So the market yield as opposed to the accounting yields of those bonds are 3%, 4%, 5%. But from a Core Earnings perspective, you would never sell those bonds and then recycle down at lower prices and in total economic return prospects are much, much, much better, prospectively. And so, that's a real vivid admittedly easy, but vivid example about how sometimes you trade-off between Core Earnings and actually making shareholders money and we will make that trade-off all day long.

Bill Greenberg: I have one more thing, Tom. Another example that I would like to think of both -- when talking about this, is highlighting the difference between the total return of the yield of a portfolio and the core income or the carry. Imagine you had a portfolio of 100% Fannie, 3.5 or 4s, hedged only with swaps. As you know, TBA dollar rolls in that part of sector is 0 to negative, yet their spreads to the curve are 105 to 110 basis points. So again, just in the round numbers, if you took that 10 times levered, that gives the return around 13%. So I'll give you an example of the portfolio which is clearly earning 13%, but yet the core incomes or the carry is 0 or negative. And we tried to pay attention to the 13% part of the thing and less attention to the 0 or negative part of the thing.

Bose George: Okay. Thank you. No, that's very helpful and we definitely look at it as well from an economic return standpoint. So definitely agree with everything you've said. But obviously the Core Earnings right, we need that to plug into our models in Factset, so we're trying to balance it too, but, yes we definitely agree with everything you noted on the focus on economic returns. So thanks a lot.

Operator: [Operator Instructions] We will now take our question -- next question from Mr. Doug Harter. Your line is now open.

Unidentified Analyst: Hey, guys. This is actually Josh on for Doug. I think, Bill might've just answered this, but on the TBA position, can you just talk about the relative attractiveness you're seeing there in generic collateral versus specified pools given the negative carry that you just mentioned. And just how you think about TBAs playing in the overall construction of the rate strategy? Thanks.

Bill Greenberg: Sure. Hi. This is Bill. I'll start. As Matt mentioned during his remarks, during the quarter we saw lower coupon TBAs in general cheapened dramatically or to continue to cheapen that we saw in the second quarter. And while most of our portfolio is in specified pools we did move some of our high coupon exposure down from those high coupon specified pools which we thought had reached the levels that were not attractive anymore. And we did recycle some into some lower coupons TBAs.

Now, as I'm sure you're aware those prices are reflecting some very high prepayments speeds and do not have any callability attached to them being cheap facility for contracts. But we feel that the prices more than fully reflect that. And in most cases stand at 5 to 10- year wides, relative to where those securities have been historically. Now again some of that is due to the TBA deliverable being worse than it has in the past. But again, we think that's more than compensated in the prices.

Unidentified Analyst: Make sense. And just one-- sorry, go ahead.

Bill Greenberg: No, I was going to add that where -- appropriate where we find value in the specified pool market even in the lower coupons where we find value, we will rotate from TBAs into those specified positions. One of the most interesting things that we find that happened this quarter was we find value being more evenly distributed across the coupon stack than we have historically. And so we find that there will be many more opportunities today than there had been in the past.

Unidentified Analyst: Great, thanks for those comments. And then just one on leverage. Given the rotation that you mentioned in to rates from credit, is it reasonable to assume the leverage to increase moderately from here in the coming quarters? Thanks.

Matt Koeppen: Hi, Josh this is Matt. In terms of leverage I think we're comfortable with the current levels and the current state of things. It's possible to see if we did continue to allocate capital into the rate strategy, you could see a corresponding increase in leverage. Having said that, I will point out that while leverage is a risk metric and it's important since we have a large component of our strategy is paring servicing with Agency mortgages. So leverage becomes less important in that construct and what you really want to think about there is the mortgage spread risk, which is dramatically lower in the construct as compared to a portfolio where you just hedging with interest rates.

Unidentified Analyst: Make sense. Thanks guys.

Tom Siering: Thanks, Josh.

Operator: We'll now take our next question from Mr. Trevor Cranston. Your line is now open. Please go ahead.

Trevor Cranston: Hi. Thanks. Good morning. And thank you for all the commentary you guys prepared about all the moving parts this quarter. It was very helpful. I guess my first question, to follow-up on the -- your investment opportunity you guys have been seeing in current coupons. Can you provide some additional sort of detail around the net TBA position you guys show on slide 21 of about \$10 billion in terms of kind of which coupon specifically you guys have exposure to and if there are any significant short positions in various coupons as well embedded in that?

Tom Siering: Hey, good morning, Trevor. I hope you have time for a cup of coffee out there.

Trevor Cranston: Yes, got it going.

Tom Siering: Okay. Super. Bill is going to take that one. Thank you.

Bill Greenberg: Hi, Trevor. Good morning. Most of our TBA position, I'd say is in the current coupons. As we just discussed as we moved much of our position there's \$7 billion or \$8 million that we commented on from 4% to 4.5% and above down to the lower coupons.

Trevor Cranston: Okay. So when you say lower coupons, is that just predominantly 3s? Is that the way to think about that?

Bill Greenberg: Yes, mostly.

Trevor Cranston: Okay. And then, you guys noted the impact on earnings this quarter from faster prepay speeds. Can you give us some context for how you guys are thinking about your speed expectations for the fourth quarter, and kind of when you're expecting to see those start tapering off assuming rates don't change significantly from where they are today?

Matt Koeppen: Trevor, I'll start with that one. I guess we'd expect, given sort of where we've seen rates recently and the fact that we're coming into a seasonal slower period, it might be that the fastest speeds are just in the rearview mirror in the next --or maybe even right here. And then I guess we would expect to see in the next couple of quarters a small slowdown in speeds.

Bill Greenberg: But -- this is Bill, but I'd remind you that, as you know, most of our position is in specified pools, which are of the prepay protected variety. And even a lot of our MSR position is in the kinds of loans that create a pay up. I'd say half our -- of that position is roughly prepay protected in one form or another. And another 30% is roughly seasoned, again, which created the pay up. And so while speeds are going to be stable or increase slightly for one more month. they should taper off going forward.

Trevor Cranston: Got it. Okay. That's helpful. And then last question from me. On the hedge book, looks like you guys are still mostly using LIBOR-based swaps. So I was curious if you guys have looked at transitioning the book into swaps based on in different indexes? And if you think going forward you might have some benefit in terms of being more closely correlated to where you see repo costs?

Matt Koeppen: Thanks for the question. We haven't yet-- we are of course monitoring the situation. And looking forward, I would expect us -- I mean obviously LIBOR is going to be transitioning away in 2021. I'd expect us to be more active in likely NOIs swaps. And as the [sofer] market develops and term markets develop and swap liquidity increases, which isn't really very good just yet, I'd expect that will transition. LIBOR swaps are perfectly effective, perfectly effected hedges at the moment. And you can execute LIBOR swaps across the entirety of the curve today obviously. OAS swaps, which are liquid are limited in tenor to that. You can only really go out just two years there. So it's somewhat limited, but I do expect that we'll use them overtime.

Trevor Cranston: Okay, great. Appreciate the comments. Thank you.

Tom Siering: Thanks, Trevor.

Operator: We'll now take our next question from Mr. Rick Shane. Your line is now open. Please go ahead, sir.

Rick Shane: Hey, guys. Thanks for taking my questions this morning. Look, this quarter was, as you guys point out an interesting quarter and the book value growth really stands out versus expectations and peers. It kind of makes me think Merton Miller and Yogi Berra; doesn't really matter how you cut the pizza. I am curious, though, from a practical perspective as the business evolves and you start to continue to realize some gains on the legacy portfolio will that potentially change the tax characteristics of the dividend as we head into year-end, or is that something we should be thinking about?

Tom Siering: Yeah, good morning, Rick. How are you? This is Tom. So I'm going to hand that question-- of course off to Mary with respect to widely tax characterization for the remainder of the year.

Mary Risky: Sure. Good morning, Rick. No, I don't think you should expect it to change the tax characterization of the dividend. We've carried some -- block carryovers that we're able to utilize it against the gains. And we're in good shape with our taxable income and it's certainly supporting our dividend as well.

Tom Siering: Yes. So, we don't expect anything special in respect to the dividend for the remainder of the year. But not a special dividend or capital to-- our expectation. Of course, you never say never on anything, but our expectation today is just it's going to be a regular dividend .

Rick Shane: Got it, yes. My question isn't about the sustainability of the dividend. It is whether or not it will continue to be all be treated as ordinary dividends? Or some of that will be appear as either a return on capital or capital gains?

Tom Siering: That's all right.

Mary Risky: It will continue to be ordinary.

Rick Shane: Great guys. Thank you very much.

Tom Siering: Thanks Rick.

Operator: We'll now take our final question from Mr. Kenneth Lee. Please go ahead sir.

Kenneth Lee: Hi, thanks for taking my question. Just from a higher-level perspective, just curious how would you characterize the near-term outlook for generating returns in spreads? And then obviously, a lot of moving parts with the funding cost and rising spreads. But just curious in terms of new money investment, and how does that compare with the environment earlier in the year? Thanks.

Bill Greenberg: Yes, hi good morning. This is Bill. I'll start. I think the investment opportunity is as interesting as we've seen in quite a long time. As I mentioned before, the opportunity across the Agency coupon stack is more interesting and more well-distributed than it has been. We're seeing TBAs at multiyear wides. We see specified pools in certain sectors become interesting, servicing continues to be interesting.

We have potential tailwinds as we've talk about in terms of normalization of the funding markets as well as the Fed cuts that have just come through which could all help to make the attractiveness of the spreads of the coupons that we've seen be interesting at these levels to be even more interesting going forward.

And while we continue to find pockets of opportunity in the non-Agency market we acknowledge that's getting harder every day. But as I said -- should we see reform results in the smaller footprint there's potentially some opportunity there that we stand ready to take advantage of should the pricing allow.

Tom Siering: Yes, I mean one thing that we're very fired up about right now honestly is that a lot of times that people will say wow, spreads are really exciting looking forward, that's the good news. The bad

news is we lost a lot in book value as a result of spreads being a lot wider now and so it impacted book value. I mean we've heard that story told a zillion times within the space.

So, to be at the point where we had a great quarter in respect to total economic return and book value and also to be very excited about prospective returns, that's an unusual, unique, exciting place to be and that's where we are right now.

We had a great quarter in respect-- I mean, really great. I'm very proud of the team in respect to total economic return. And prospectively, spreads are attractive. And so that's why, as we sit here today, we collectively are pretty fired up about the business. I think that really captures where we are right now.

Kenneth Lee: Great, very helpful. And just one follow-up, if I may. I think on the slide, there was a mention of increasing interest in flow sales partnerships with the MSR's. Just curious how should we think about the potential balance between the bulk acquisitions and flow sale agreements going forward within MSR's. Thanks.

Bill Greenberg: Yeah, hi, this is Bill. As we said, we acquired around \$5.5 billion of MSR inflow, this quarter. We are continuing to add new sellers in fact one of the by-products of lower interest rates is larger flow of volumes, as smaller originators realize that it more helpful to them, to sell on a flow basis, rather than waiting around and stomaching the interest rate volatility and price volatility themselves.

So, we're seeing volumes pick up quite meaningfully. And in fact, in October, we acquired -- In October alone we acquired around \$4 billion UPB of flow, which is our largest month ever. And the addition of new sellers should make that go, I dare say, meaningfully higher. In terms of our appetites and in terms of flow and bulk, you know, we will continue to be active participants in the bulk markets, as market conditions allow, both in terms of product and pricing. And so our appetite is to continue to add to that position.

We continue to think that MSR paired with MBS is the most attractive of our investment alternatives. And we expect that to grow. So we will continue to add to that going forward as we can.

Kenneth Lee: Great, very helpful, thank you.

Operator: As there are no further questions, I would now like to turn the call back over to our host, Margaret Field.

Maggie Field: Thank you, James. And, thank you all for joining our conference call today. We will be participating in the JMP Securities Financial Services conference next week, on November 14. And we look forward to speaking with you soon. Have a wonderful day.

Operator: Ladies and gentlemen, this will conclude our conference call for today. Thank you very much for your participation, and you may now disconnect.