

Floating-Rate credit strategy focused on reinsuring Fannie Mae and Freddie Mac to partially transfer their mortgage credit risk to private investors. Manager can tailor risk/return profile in an SMA that fits individual investor returns and liquidity needs.

Separate Managed Account (SMA)* Overview, July 2022

SMA Information	
Currency	\$USD
Investment Vehicle	SMA
No Lockout	45 days notice
% Floating Rate	100%
Coupon Frequency	Monthly
Spread Duration	4.9 years
Distribution	Investor Discretion
Fees	Management Fee & Profit-Sharing

U.S. Housing Agencies were mandated by Congress in 2012 to transfer credit risk from their portfolios to private capital investors; thereby creating a unique opportunity to reinsure Fannie Mae and Freddie Mac (Government Sponsored Agencies, “GSEs”).

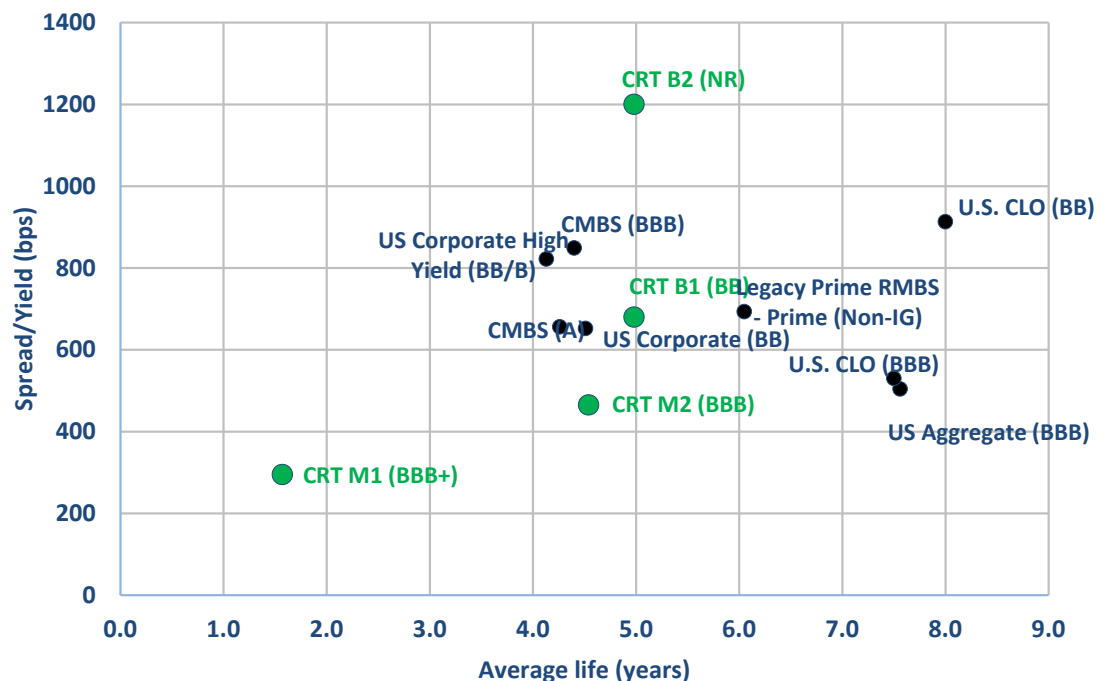
Falcon Bridge Capital (“FBC”) invests in residential mortgage **Credit Risk Transfer (“CRT”)** debt securities issued by the GSEs.

- Underlying loans being reinsured are large diversified pools originated throughout the U.S. All loans must meet GSE underwriting and Servicing guidelines.
- All securities are floating rate instruments indexed to 1 Month Libor/SOFR Plus a Spread to compensate for credit risk.
- Most deals are expected to be called within 5-10 years, across most economic scenarios.
- Strong housing market over the past 4 years has built substantial housing equity reducing default probabilities.

Market “Technical” are creating an attractive opportunity to deploy capital.

Increased market volatility, wider spreads due to increased deal issuance, rising short-term rates, coupled with strong housing fundamentals are creating an attractive opportunity for investors looking to gain mortgage credit exposure through **Floating-Rate Credit Risk Transfer (“CRT”)** debt securities.

Figure 1: CRT Spreads vs. Other Securitized Products

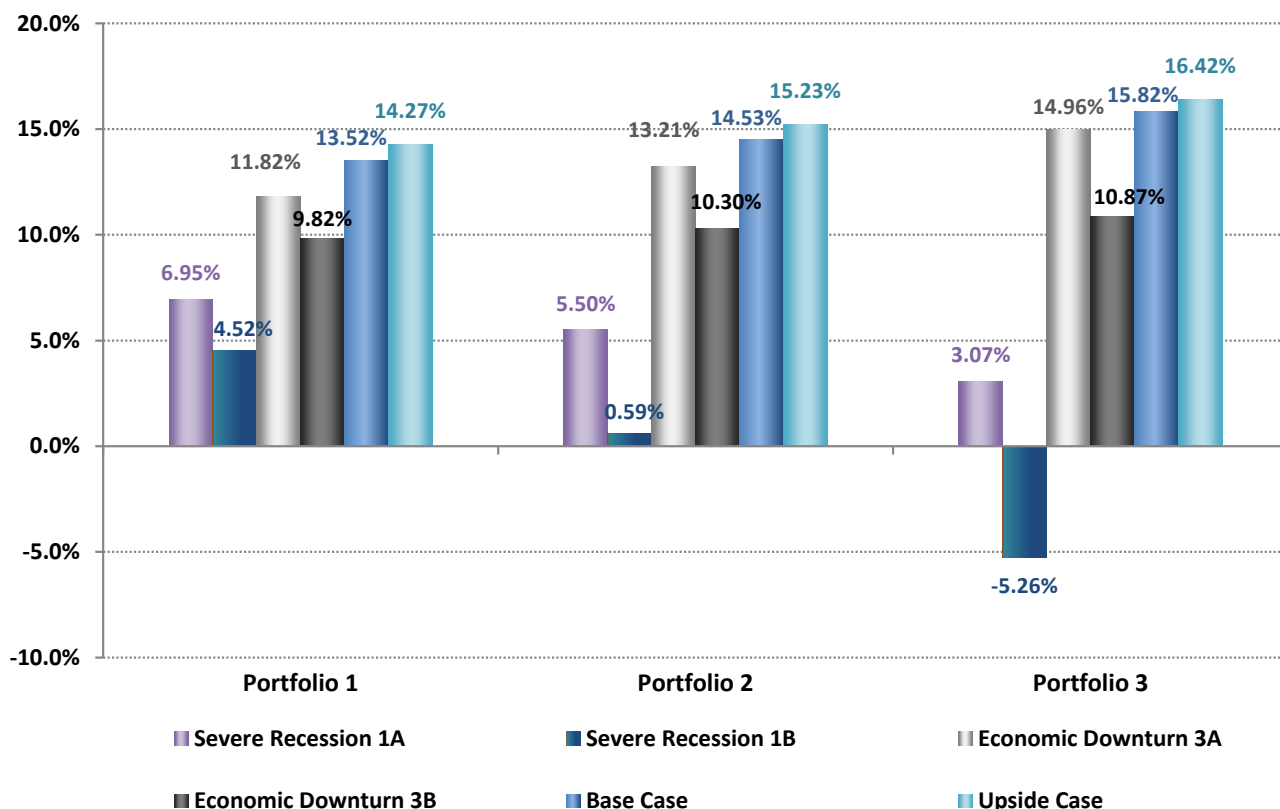


Note: CRT Bonds are expressed in spreads for the latest Fannie Mae deal in 2022; U.S. CLO indices are expressed in spreads to SOFR from J.P. Morgan; all other indices are expressed in yield-to-worst based on J.P. Morgan and Bloomberg projections as of 7/20/22.

Investment Opportunity Tailored to Separate Managed Accounts

- Recent spread widening is a result of record loan originations in 2020–2021 requiring high levels of risk-transfer / reinsurance by the GSEs.
- Floating rate structure remains very attractive, given the potential of higher short-term rates in the near-term. 100% of the CRT sector is floating rate.
- Strict underwriting standards and limited housing inventories (for owners AND renters) will result in very low defaults; risk-adjusted returns ***extremely attractive relative to other structured products.***
- Potential short-term weakness in home prices due to the recent drop in affordability has been captured in our cash flow projections. Projections assumes home prices to reverse the course and drop ~10% over the next 4 quarters in order to bring affordability more in-line with long-term trends. The projected price decline correspond to home price appreciation observed in Q4, 2021 and all of 2022.

Projected Scenario IRRs (Gross)

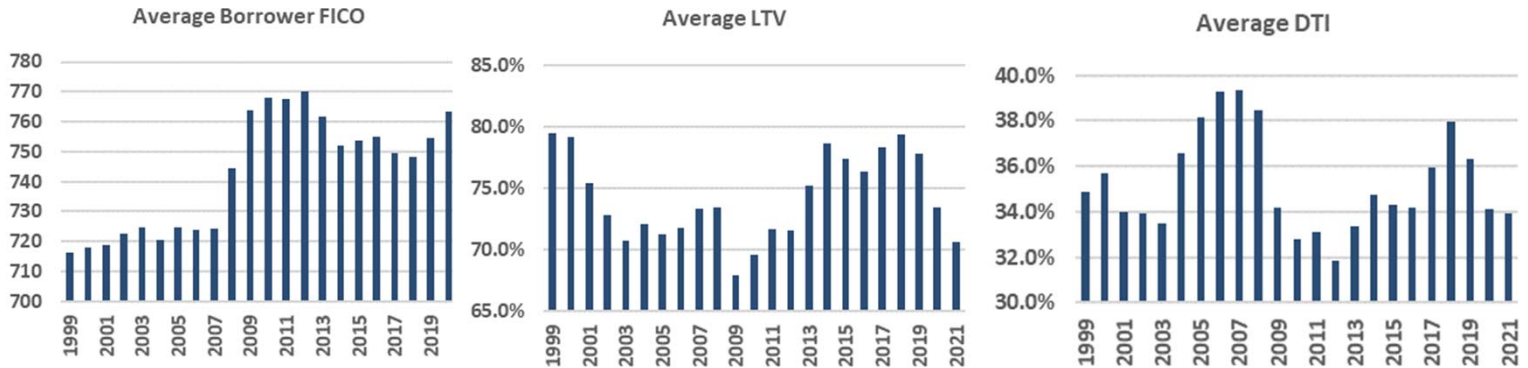


Source: FNMA, FHLMC, FBC. Bond prices assumed as of July 29th, 2022. Projections based on modeling assumptions by Manager. Detailed presentation and scenario assumptions available on request.

Note: Scenario 3A assumes all bonds Held-to-Call; typically, 5 years.

Trends in Underlying Borrower Profile and Housing Market Continue To Mitigate Underlying Credit Risk

Figure 2: Strong Borrower Profile and Homeowner Equity to Out-Perform Modeled Credit Performance



Home Price Appreciation over the past 48 months has contributed to the increase in home equity and wealth effect across the country (see U.S. Map).

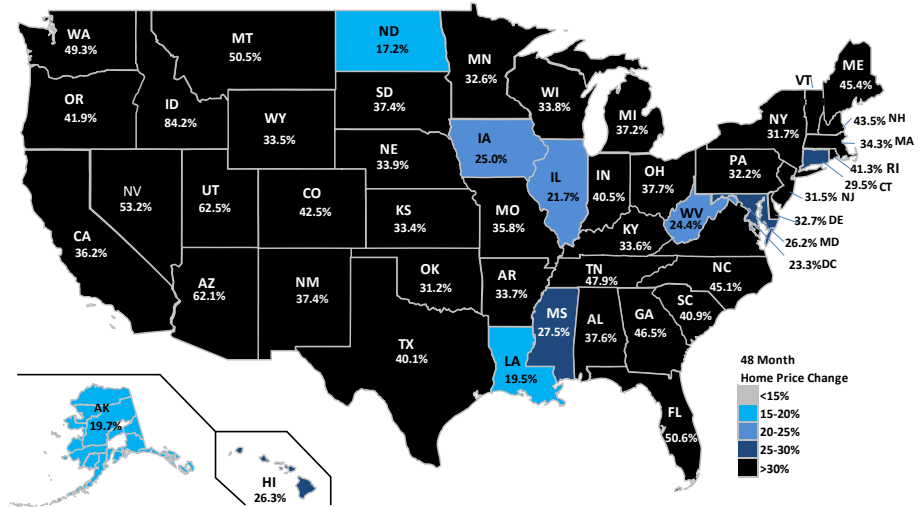
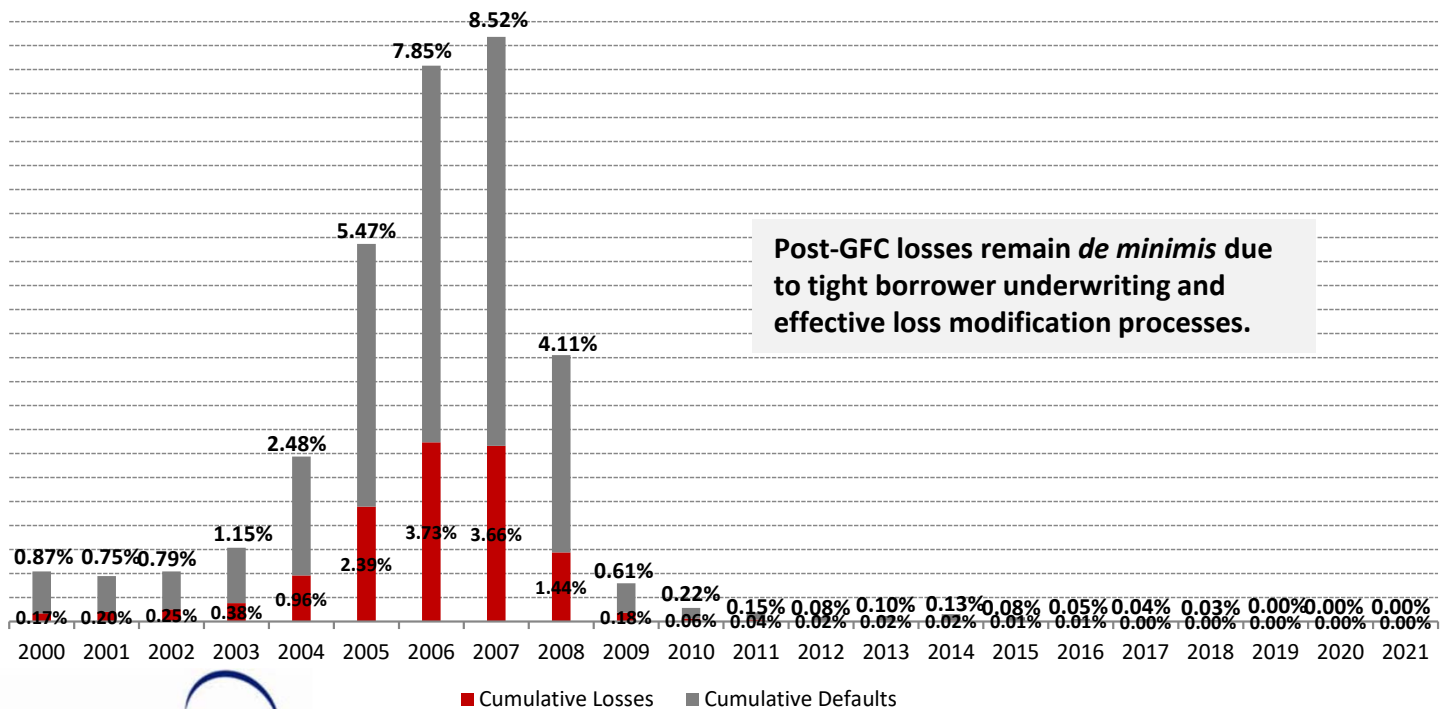


Figure 3: Cumulative Default and Loss % Across Origination Vintages

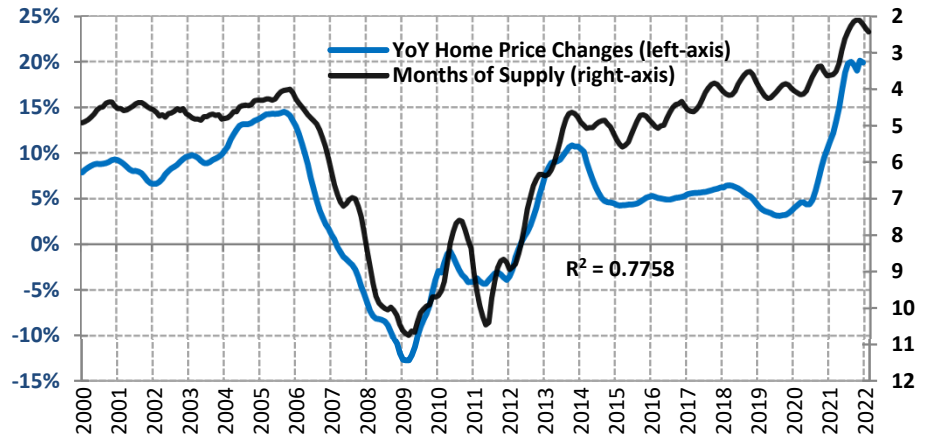


Post-GFC losses remain *de minimis* due to tight borrower underwriting and effective loss modification processes.

Housing Shortages Persist

Home prices experienced sharp increases as inventory levels (as illustrated by months of supply) have dropped to unprecedented levels.

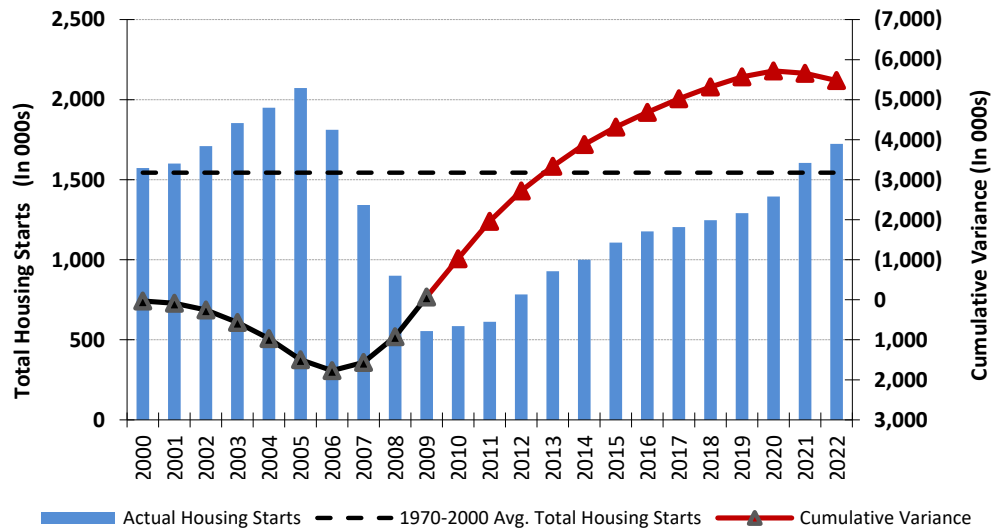
Figure 4: YoY Home Prices Changes vs. Months of Supply



*Months of Supply is 6m average moved forward 6m (inverted RHS Axis)

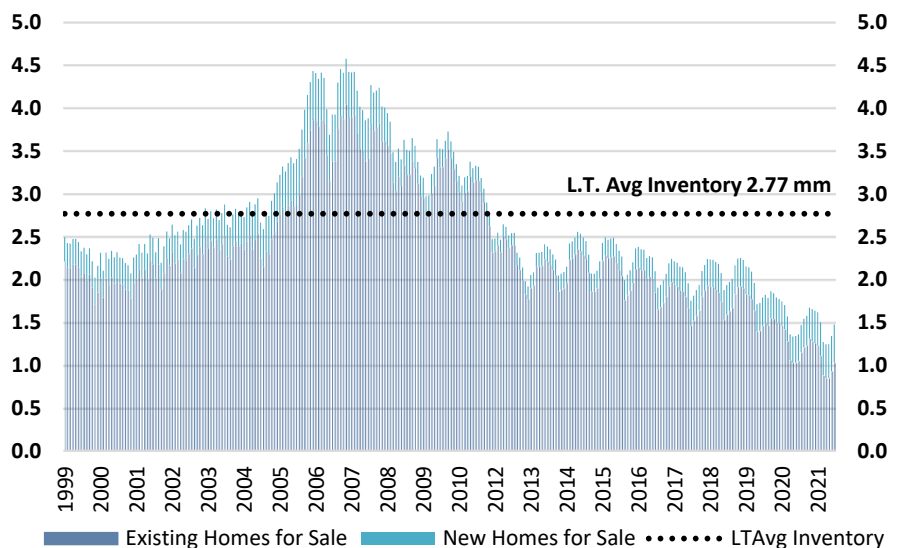
Supply shortages will continue to persist for several years as builders try to meet long-term demand for housing.

Figure 5: Housing Shortage



Housing inventory is ~47% below long-term trend. The supply of homes available for sale (existing and new) has stabilized at ~1.5 million in April 2022. In comparison, inventory averaged 2.77 million during 1999-2019.

Figure 6: Inventory of Homes for Sale (mm)



Impact of High Mortgage Rates Slowing Demand

Increases in mortgage rates in have resulted in weakest affordability in the past decade; adversely impacting a large segment of the homebuying market:

- 1st Time Homebuyers
- 2nd Home Buyers
- Investors

Empirical studies suggest that an increase in mortgage rates of 1% roughly corresponds to a 5% - 10% decrease in home sales.

- This year, mortgage rates surged almost 2.5% and are currently at 5.50% mortgage rates for 30yr Conventional borrowers.
- Assuming a response rate of ~ 10% for every 1% rise in mortgage rate, the existing and new home sales may drop 25% to an annualized rate of below \$4.5mm in 2022 and 2023.

Home price appreciation has a strong relationship with level of home sales. We expect to give back at least 10% of recent home price appreciation over the next few quarters; implying no change in home prices for 2022 and a modest decline in 2023.

Figure 6: YoY change in mortgage rates vs. Affordability

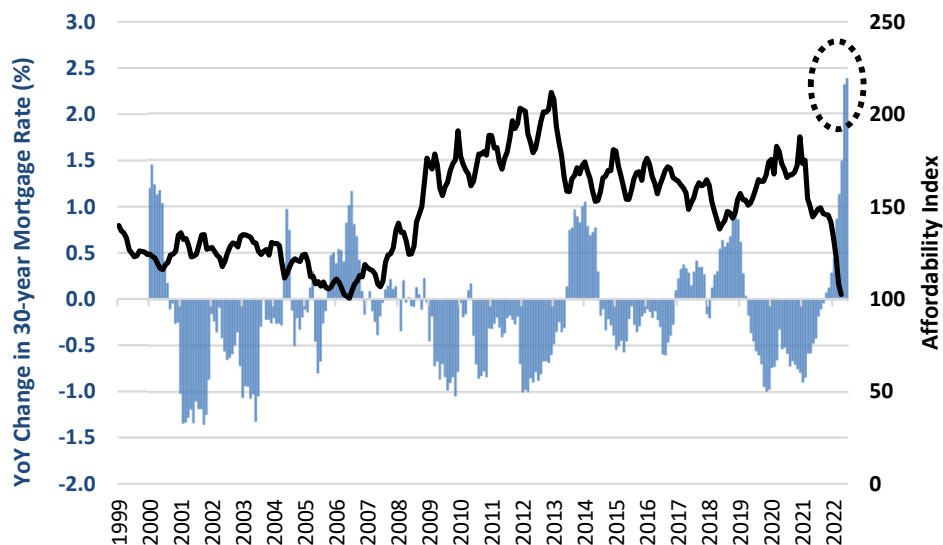


Figure 7: Home Sales vs. Home Prices

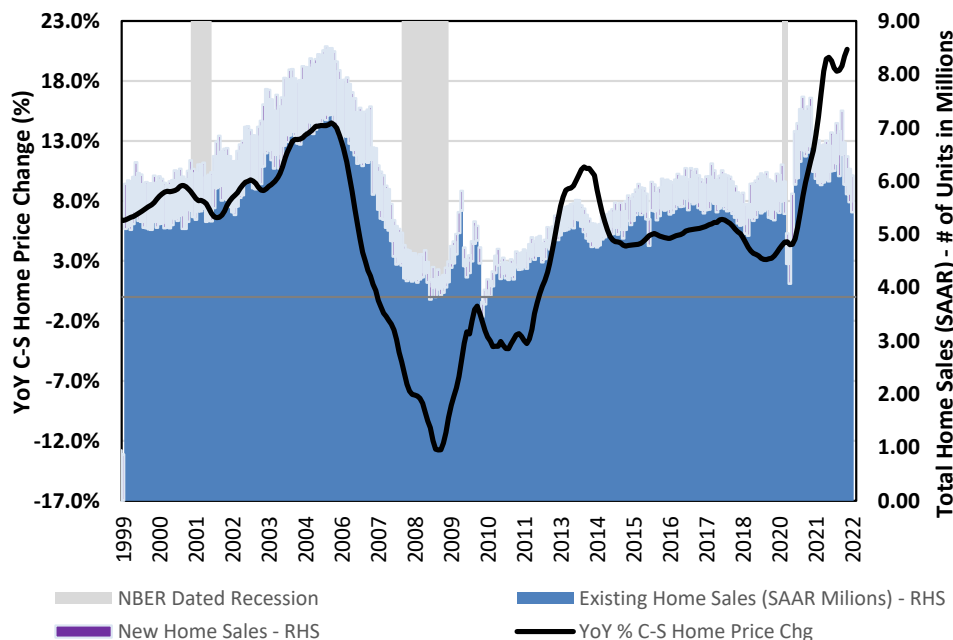


Figure 8: Home Sales vs. YoY Home Price Performance

Existing and New Home Sales (millions of units)	Avg. YoY Home Price Change %
> 4 < =4.5	-8.25%
> 4.5 < =5	-4.18%
> 5 < =5.5	3.77%
> 5.5 < =6	5.42%
> 6 < =6.5	6.30%
> 6.5	11.12%

Company Background & Disclosures

Firm Overview

- Falcon Bridge Capital was formed in January 2006 as part of joint venture with one of the largest P.E. firms in the U.S. to provide portfolio management of legacy U.S. Residential Mortgage-Backed Securities ("RMBS").
- Firm provides loan acquisition, analytical and due diligence services to various Community Banks in CA.
- Firm has extensive expertise across mortgage credit and securitized products.

Registered Investment Advisor since June 30, 2011.

SEC Registration Number: 801-72513

FINRA IARD Number: 156661

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