ELLINGTON
INCOME OPPORTUNITIES FUND

Market Commentary

Fourth Quarter 2021

Introduction

Ellington Income Opportunities (EIO) maintained steady performance in the fourth quarter amidst elevated volatility across financial markets. In interest rate markets, the yield curve flattened throughout the fourth quarter as the Federal Reserve admitted they may have understated the likely persistence of inflation and eventually accelerated the taper schedule. Credit markets were briefly battered by the emergence of the Omicron variant, but recovered much of these losses in December. Throughout these movements, the fund's core positioning generated attractive returns with limited price volatility,

Market Environment

Within residential assets, legacy U.S. residential mortgage-backed securities (RMBS) continued to drive returns in the fourth quarter. Returns remained consistently positive despite a selloff in the 2.0 private label RMBS market, which was driven by excess supply of new issue deals. Shrinking supply of legacy U.S. RMBS typically shields the sector from such technical market widening events. Mortgage real estate investment trust (REIT) preferred equity was slightly positive in the fourth quarter.

The commercial mortgage-backed securities (CMBS) portfolio continued to benefit from excellent credit performance in the sector. Spreads widened marginally in the fourth quarter, but the strong carry provided by the fund's assets more than offset any modest mark-to-market losses.

Corporate-backed investments saw modest gains. Call activity, especially among the fund's collateralized loan obligation (CLO) assets, has provided a soft cap for price appreciation on higher coupon holdings. We expect call activity to remain steady into the new year.

In asset-backed investments, senior aircraft-backed securities contributed modestly to fund returns.

Fund Outlook

Volatility across financial markets is likely to remain elevated as investors digest the ramifications of lower government stimulus and rising interest rates. The floating rate nature of the portfolio in combination with the fundamental strength of the fund's underlying assets should insulate the fund from local market shocks. Such market dynamics should provide for an opportunistic trading environment, which should benefit fund returns.

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Some of the statements in these materials constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, estimates, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. The forward-looking statements in these materials are subject to inherent qualifications and are based on a number of

assumptions. The forward-looking statements in these materials involve risks and uncertainties, including statements as to: (i) general volatility of the securities markets in which we plan to trade; (ii) changes in strategy; (iii) availability, terms, and deployment of capital; (iv) availability of qualified personnel; (v) changes in interest rates, the debt securities markets or the general economy; (vi) increased rates of default and/or decreased recovery rates on our investments; (vii) increased prepayments of the mortgage and other loans underlying our mortgage-backed or other asset-backed securities; (viii) changes in governmental regulations, tax rates, and similar matters; (ix) changes in generally accepted accounting principles by standard-setting bodies; (x) availability of trading opportunities in mortgage-backed, asset-backed, and other securities, (xi) changes in the customer base for our business, (xii) changes in the competitive landscape within our industry and (xiii) the continued availability to the business of the Ellington resources described herein on reasonable terms.

The forward-looking statements are based on our beliefs, assumptions, and expectations, taking into account all information currently available to us. These beliefs, assumptions, and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, the performance of instruments and business discussed herein may vary materially from those expressed, anticipated or contemplated in our forward-looking statements.

For Carry Assets / Distressed Resolution Strategies:
Unlevered Carry: This represents the model-based, loss-adjusted yield of the relevant assets before giving effect to leverage. This includes, without limitation, the effects of interest income and return of principal for assets at a premium or discount to par, as well as amortization of the premium or discount to par. The figure does not necessarily represent current period cashflow of the assets. For example, a zero coupon Treasury bill would contribute based on its yield to maturity despite making no interest or principal payments before maturity. The figure does not include any assumption of total return due to trading the relevant assets.

Unlevered Resolution Run Rate: This applies to strategies that generally do not derive the majority of their income from regularly scheduled payments but where the assets are purchased at a discount to fair value due to non-performance or reperformance of the credit. The Unlevered Resolution Run Rate represents the model-based rate of discount capture expressed as a percentage of dollar investment amount for the resolution of the asset. For example, for a non-performing residential mortgage loan, this would represent the modeled rate of return on assets invested from foreclosure sales, short sales, discounted pay-offs, and similar asset resolutions; this figure would not, however, include any assumption of total return due to trading the loans themselves.

Net Run Rate = Unlevered Carry + Unlevered Resolution Run Rate + Financing Cost (all represented as a percentage of investment amount)

Levered Run Rate (% Capital) = Net Run Rate x (Investment Amount / Capital Deployed)

Levered Run Rate (% NAV) = Net Run Rate x (Investment Amount / Fund NAV)

For Relative Value Strategies:
Run Rate (% Capital): Represents an expected rate of return based on historical performance for strategies for which relevant historical information is available or in other cases based on backtest or models. Performance is based on deployed risk capital. In contrast to Carry Assets / Distressed Resolution Strategies, this includes assumptions about total return due to mark-to-market and trading of the relevant instruments.

Run Rate (% NAV) = Run Rate as % of Capital x (Capital Deployed / Fund NAV)

For Shorts:
Short Notional Equivalents: Amount of credit hedges expressed in on-the-run HY CDX equivalent notional computed using model-based hedge ratios for each hedging instrument.

Run Rate (% Notional Equivalents): This figure represents the model-based, loss-adjusted hedging cost, including the effect of ongoing interest expense, expected credit losses, and amortization of the premium or discount to par. The figure does not include any assumption of spread widening or tightening (such as the effect of spread roll-down).

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