ELLINGTON
INCOME OPPORTUNITIES FUND

Market Commentary

Third Quarter 2022

Introduction

Ellington Income Opportunities (EIO) performance was relatively flat in the third quarter with volatile market conditions persisting. After rallying in late July and the beginning of August, interest rates and credit spreads sold off as investors priced in hawkish central bank developments. Credit spreads, as measured by the corporate high yield index, tightened over 150 basis points intra-quarter before giving up all these gains and then some. Many structured credit assets experienced similar volatility over the time period. Spreads for on-the-run structured products fluctuated in tandem with broader moves in liquid credit indices, though pockets of the structured market experienced less drastic moves. Despite a difficult environment, the fund has continued to perform well on a relative basis to the broader credit market and we think is positioned to take advantage of the substantial opportunities that now exist within the securitized credit markets.

Market Environment

A focus on more mature assets aided performance in Q3. Strong primary issuance amidst a backdrop of weaker demand has pushed on-the-run spreads wider. Seasoned assets tend to trade with a lower beta to general credit markets given lower fundamental risk, thus experiencing more stable performance.

The fund's credit and interest rate hedges were an important component of returns in the third quarter. Maintaining exposure to higher yielding structured credit assets without taking an explicit rates-oriented view has been a central tenet of our investment process in this fund, helping to preserve capital in a year where realized rate volatility has been elevated.

Exposure to UK and European assets hurt performance in Q3 as sweeping fiscal policy changes caused heavy selling pressure from pension funds and other liability-driven investors in the region. Asset prices have also been dampened due to other funds needing to sell assets to meet redemptions. This is a risk in investing in less frequently traded assets as this fund does. Although these assets underperformed, we view it as an opportunity to add risk given the technical nature of the widening. Additionally, the fund hedges currency risk on non-dollar assets and thus was insulated from moves in foreign exchange markets.

Fund Outlook

Having reached the second half of 2022, it is notable in retrospect how quickly market narratives flipped from a "reach for yield" to one of more defensive positioning. In our view, the current market is one of the most attractive entry points for structured products in quite some time. Assets that traditionally have had little to no credit risk, even in the face of harsh economic shocks, now trade at some of the widest levels in product history. However, the current trading environment is extremely challenging as spreads have steadily widened this year without a clear catalyst for reversal. Although spread volatility may persist, the carry profile on the fund's assets have improved as well, which may create a strong entry point with an attractive upside.

Important Notes

Ellington Income Opportunities Fund is a continuously offered, closed-end management investment company that is operated as an interval fund.

These materials have been provided for information purposes and reference only and are not intended to be, and must not be, taken as the basis for an investment decision. The contents hereof should not be construed as investment, legal, tax or other advice and you should consult your own advisers as to legal, business, tax and other matters related to the investments and business described herein.
The information in these materials does not constitute an offer to sell or the solicitation of an offer to purchase any securities from any entities described herein and may not be used or relied upon in evaluating the merits of investing therein. No such offer or solicitation will be made prior to the delivery of offering and related subscription or investment advisory materials (together, the “Offering or Advisory Materials”). Offers and sales will be made only pursuant to the Offering or Advisory Materials and in accordance with applicable securities laws. The information set forth herein does not purport to be complete and is qualified in its entirety by reference to the Offering or Advisory Materials. These materials are not a part of or supplemental to such definitive Offering or Advisory Materials. These materials will be superseded in its entirety by the Offering or Advisory Materials (and any supplements thereto).

The information contained herein has been compiled on a preliminary basis as of the dates indicated, and there is no obligation to update the information. The delivery of these materials will under no circumstances create any implication that the information herein has been updated or corrected as of any time subsequent to the date of publication or, as the case may be, the date as of which such information is stated. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained herein, and nothing shall be relied upon as a promise or representation as to the future performance of the investments or business described herein.

Some of the information used in preparing these materials may have been obtained from or through public or third party sources. Ellington assumes no responsibility for independent verification of such information and has relied on such information being complete and accurate in all material respects. To the extent such information includes estimates or forecasts obtained from public or third party sources, we have assumed that such estimates and forecasts have been reasonably prepared. In addition, certain information used in preparing these materials may include cached or stored information generated and stored by Ellington’s systems at a prior date. In some cases, such information may differ from information that would result were the data re-generated on a subsequent date for the same as-of date. Included analyses may, consequently, differ from those that would be presented if no cached information was used or relied upon.
By acceptance hereof, you agree that (i) the information contained herein may not be used, reproduced or distributed to others, in whole or in part, for any other purpose except as expressly provided herein without the prior written consent of Ellington Management Group, L.L.C., Ellington Global Asset Management, LLC, or its affiliated advisers (together, “Ellington”); (ii) the information contains highly confidential and proprietary 'trade secrets'; (iii) you will keep confidential all information contained herein not already in the public domain; and (iv) you will not use such information for any other purpose, including trading in the securities of other Ellington entities.

AN INVESTMENT IN VEHICLES AND INSTRUMENTS OF THE KIND DESCRIBED HEREIN, INCLUDING INVESTMENT IN COMMODITY INTERESTS, IS SPECULATIVE AND INVOLVES SUBSTANTIAL RISKS, INCLUDING, WITHOUT LIMITATION, RISK OF LOSS. YOU SHOULD CAREFULLY REVIEW THE DISCUSSION OF RISK FACTORS IN THE RELEVANT OFFERING DOCUMENT, SUBSCRIPTION MATERIALS, OR MANAGEMENT AGREEMENT BEFORE DECIDING TO INVEST.

Example Analyses or Portfolios
Example analyses and portfolios included herein are for illustrative purposes only and are intended to illustrate Ellington’s analytic approach and approach to portfolio construction. They are not and should not be considered a recommendation to purchase or sell any security. The example analyses are only as of the date specified and do not reflect changes since that time. There is no assurance that Ellington will be able to secure investment in securities substantially like those discussed, construct a portfolio substantially like that discussed, or that the composition of any portfolio will resemble discussed examples at any future date.

Estimated P/L Attributions
P/L attributions discussed herein have been prepared in good faith by Ellington. These attributions, however, depend upon a number of assumptions, the use of Ellington’s models, and the application of judgment during preparation of the attributions. Moreover, the tools used to calculate these attributions may be refined over time, and not all data used to prepare these estimates may be available for all periods. The attributions shown may, consequently, differ from those that would be shown had a different methodology, including past methodologies, been employed or had different judgments or assumptions been made during their preparation. The methodology used herein for classifying P/L as “realized” or “unrealized” may differ from methodologies consistent with GAAP and the resulting attributions may, consequently, differ substantially from those that would result from methodologies consistent with GAAP. For these and other reasons,

these attributions are of limited utility and are provided for informational purposes only. This attribution information should be read in the context of historical fund net performance provided to you separately.

Forward-Looking Statements

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.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus or summary prospectus with this and other information about the Fund, please call 1-855-862-6092 or visit our website at www.ellingtonincomefund.com. Read the prospectus or summary prospectus carefully before investing.

Distributor – Foreside Fund Services, LLC

PRINCF-20221207-0157