

Market Commentary

Second Quarter 2023

Introduction

Ellington Income Opportunities (EIO) performance was positive in the second quarter despite broader market volatility. During the quarter, regional bank instability as well as a potential United States default dominated headlines. Immediate concern over both risks subsided by quarter-end, boosting risk appetite, even as interest rates were driven higher by hawkish Fed sentiment. The fund's core assets posted a strong quarterly performance, with investor demand for high-carry structured credit assets overriding potential concerns about a move wider in risk spreads. In the second quarter, legacy RMBS spreads tightened 55 bps, non-qualified mortgage AAAs 25 bps, single-family rental (SFR) securitization AAAs 20 bps, and U.S. Collateralized Loan Obligation (CLO) AAAs 15 bps.

Market Environment

Within the fund's residential mortgage holdings, Credit Risk Transfer (CRT) securities outperformed in the second quarter, driving a significant amount of positive fund returns.

Seasoned residential credit became a favored risk asset for real money accounts, as money managers returned from the sidelines, deploying capital in a sector which has exhibited strong credit performance due to its significant seasoning and build-up of home price appreciation. We expect mortgage credit to remain resilient given the strong current state of the U.S. housing market.

For the first time in several years, there could be significant divergence in the performance of the fund's focus areas. While the residential housing market continues to demonstrate strength as a result of constrained supply, the situation in commercial real estate is quickly deteriorating. In addition to depressed property valuations and increased vacancies in property types such as office, the regional banking crisis could pressure the sector even further as smaller banks pull back from the commercial lending space.

Fund Outlook

While commercial mortgages currently represent a small portion of the portfolio, the fund will be monitoring for potential investment opportunities as the commercial story continues to develop. We expect to maintain a bias towards high quality residential-backed floating rate assets in the short term, which we think should allow the fund to earn potential yields while remaining opportunistic should more advantageous investment conditions emerge in the commercial sector.

Important Notes

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.

Fund Risks

Investing involves risk including the possible loss of principal including the following:

- Shares of the Fund will not be listed on any securities exchange, which makes them inherently illiquid.
- There is no secondary market for the Fund's shares, and it is not anticipated that a secondary market will develop.
- The shares of the Fund are not redeemable.
- Although the Fund currently intends to offer a quarterly repurchase offer, the Fund is not required to repurchase shares at a shareholder's option nor will shares be exchangeable for units, interests or shares of any security.
- Regardless of how the Fund performs, an investor may not be able to sell or otherwise liquidate their shares whenever such investor would prefer at the time or amount desired.

An investment in the Fund's shares is not suitable for investors who cannot tolerate the risk of complete loss or who require liquidity.

The Fund's investment in ABS (Asset-Backed Securities), RMBS (Residential Mortgage-Backed Securities) and CMBS (Commercial Mortgage-Backed Securities) subjects it to credit risk because underlying loan borrowers may default. Additionally, these securities are subject to prepayment risk because the underlying loans held by the issuers may be paid off prior to maturity. The value of these securities may go down due to changes in prepayment rates on the underlying mortgages or loans. During periods of declining interest rates, prepayment rates usually increase and the Fund may have to reinvest prepayment proceeds at a lower interest rate.

There is a risk that issuers and counterparties will not make payments on securities and other investments held by the Fund, resulting in losses to the Fund. In addition, the credit quality of securities held by the Fund may be lowered if an issuer's financial condition changes. Lower-quality fixed income securities, known as "high yield" or "junk" bonds, present greater risk than bonds of higher quality, including an increased risk of default. An economic downturn or period of rising interest rates could adversely affect the market for these bonds and reduce the Fund's ability to sell its bonds and decrease the Fund's share price. Repayment of defaulted securities and obligations of distressed issuers is subject to significant uncertainties. Investments in defaulted securities and obligations of distressed issuers are considered speculative as are junk bonds in general.

The value of securities of smaller issuers can be more volatile than those of larger issuers. The value of certain types of securities can be more volatile due to increased sensitivity to adverse issuer, political, regulatory, market, or economic developments.

The Fund may enter into swaps and other derivative instruments which could amplify volatility. The Fund may engage in short selling for hedging and speculative purposes. A short sale may create the risk of an unlimited loss, in that the price of the underlying security

might theoretically increase without limit, thus increasing the cost of purchasing the security in order to close out the securities borrowing.

The use of leverage, such as borrowing money to purchase investments, could cause the Fund to incur additional expenses and magnify gains or losses.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Ellington Income Opportunities Fund. This and other important information about the Fund are contained in the Prospectus, which can be obtained by contacting your financial advisor, or by calling 1-855-862-6092. The Prospectus should be read carefully before investing.

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