Market Commentary

Fourth Quarter 2025

Introduction

Ellington Income Opportunities (EIO) generated a net return of -0.32% in the fourth quarter.[1] While general credit spreads fluctuated throughout the quarter, they ended the year essentially flat. Within structured products, spreads tightened in non-agency RMBS subsectors, while CLOs, CMBS, and ABS saw spreads flat to wider throughout the quarter. The fund underperformed broader credit markets as a result of a write-down in one of its ABS holdings.

Market Environment

In ABS, fourth quarter results were primarily impacted by the fund's exposure to First Brands trade receivables.[2] During the quarter, the fund's remaining exposure was significantly written down, reflecting pessimistic market sentiment on future recoveries, as evidenced by price moves in the market of senior secured loans from the company. The position should no longer be a meaning contributor to portfolio risk or returns going forward. Performance across the remainder of the fund's ABS holdings was positive. The fund's aircraft exposure performed well, supported by strong asset values, stable lease cash flows, and favorable supply-demand dynamics. In addition, the fund's consumer loan securities contributed positively, benefitting from resilient borrower performance and improved underwriting standards.

Non-agency RMBS spreads tightened through year-end as supply fell and agency RMBS outperformed. The OAS of the US agency MBS Index tightened 8bps in December, its largest move since January 2025. Agency RMBS outperformance encouraged crossover investors to rotate into non-agency markets in search of relative value, providing incremental price support in the sector. Deeper credit profiles also outperformed after Freddie Mac surprised the market by announcing its first ever tender offer for CRT B2s. Net negative supply in deeper credit residential instruments and strong collateral performance have provided broad support for subordinate residential credit spreads across sectors.

CLO spreads leaked wider in the fourth quarter amid softness in the leveraged loan market, driven by concerns over idiosyncratic defaults. Trading reflected a market preference towards up in quality profiles. Defensive mezzanine structures such as those favored by this fund outperformed as investors positioned for higher credit dispersion and volatility. Throughout the quarter, pockets of strong demand from insurance companies and ETFs helped offset some of the weakness stemming from fundamental credit concerns.

Fund Outlook

Looking forward to 2026, we believe that credit dispersion is likely to persist across certain sectors. The fund is positioned accordingly. Its residential assets are set to enter the year with solid fundamentals, such as high homeowner equity and strong borrower underwriting. The fund's CLOs likewise benefit from low trailing defaults and high amounts of credit enhancement. In this environment, we will emphasize conservative security selection and strong structural protections to manage risk and capitalize on relative value opportunities.

[1] Performance is for EIO's I share class. Source: Bloomberg. Past performance is not indicative of future results.
[2] As of December 31, 2025, exposure to First Brands Group trade receivables accounted for approximately 0.43% of total fund assets. Holdings are subject to change.

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Definitions:

CMBS: **(Commercial Mortgage-Backed Securities)**: Bonds backed by a pool of commercial real estate loans, providing investors with exposure to income from property assets like office buildings and shopping centers.
RMBS: **(Residential Mortgage-Backed Securities):** Bonds backed by residential mortgage loans, offering returns derived from homeowners' mortgage payments.
Non-QM**: (Non-Qualified Mortgage):** Home loans that don't meet the strict criteria of qualified mortgages, often catering to borrowers with nontraditional income or credit profiles.
BPS**: (Basis Points):** A unit of measure equal to 1/100th of a percent, commonly used to describe changes in interest rates or financial metrics.
CLO **(Collateralized Loan Obligation**): A type of structured security backed by a pool of corporate loans, typically leveraged loans made to businesses.
Deleveraged: The reduction of debt or financial leverage, often to lower risk or meet regulatory requirements.
ABS**: (Asset-Backed Securitie**s): Bonds or notes backed by financial assets like auto loans, credit card receivables, or student loans, providing cash flows to investors.
De-lever: The process of reducing leverage, typically by selling assets, paying down debt, or increasing equity to improve financial stability.
SFR: **(Single Family Rental):** Referring to freestanding rental homes, a growing asset class attracting institutional and private investors, and offering potential for stable rental income and property appreciation.
OAS: **(Option-Adjusted Spread):** A measure in fixed income that represents the yield spread of a bond (or other interest-rate–sensitive security) over a risk-free benchmark curve after adjusting for embedded options (such as call or prepayment options).
CRT: **(Credit Risk Transfer):** Structured financial securities issued primarily by government-sponsored enterprises (GSEs) that are designed to transfer a portion of residential mortgage credit risk from the issuer to private investors.

Example Analyses or Portfolios

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• 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.

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