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Cerberus: RMBS is still the place to be

The firm explains why high returns in the sector will continue at the Absolute Return Symposium, writes Lawrence Delevingne

With mortgage backed security hedge funds having a blowout year, many current and prospective investors in the strategy are wondering if the high returns will continue. Cerberus Capital Management certainly thinks so.

Firm marketing and investor relations professionals Bob Richter and Jon Sebiri held a sponsored workshop for attendees at the Absolute Return Symposium to make the case.

“We feel that it’s still a very broken market and that there are many years of worth of investment opportunities to come,” said Sebiri to a roomful



Josh Weintraub of Cerberus

Axel Dupret

of interested parties.

Those comments echoed what Josh Weintraub, head of U.S. mortgage securities and trading manages at Cerberus, said earlier

in the day on a panel of prominent credit investors. “A lot of investors say ‘is it over, did we miss it?’ I say it’s just beginning,” said Weintraub. “It’s not RMBS, it’s not a beta trade—you can play in housing, you can play in mortgage servicing contracts, you can play in loans, you can play in non-performing loans and do rent to own, REO [real estate owned]-type recoveries. It’s just vast. It’s the largest investment platform in the universe.”

Weintraub’s hedge fund, the Cerberus’s RMBS Opportunities Fund, is up about 16% net of fees through September and its assets have sky-

rocketed to \$1.6 billion since launching early last year. Unlike many of the hedge funds involved in the mortgage trade, it is not invested in subprime securities.

Return prospects are still bright, according to the Cerberus team. Even if mortgage delinquencies get worse, it’s unlikely they will go beyond assumptions already made in the prime RMBS Cerberus selects. Same with the severity of defaults in the portfolio or mortgage prepayments: they likely won’t be worse than the implied price of the security, which yields in the mid single digits in a “base case” scenario.

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