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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Ellington Financial first quarter 2013 financial results conference call. Today's call is being recorded. At this time all participants have been placed in listen-only mode and the floor will be open for your questions following the presentation. (Operator Instructions). It is now my pleasure to turn the floor over to Sara Brown, Corporate Counsel. You may begin.

Sara Brown - *Ellington Financial LLC - Corporate Counsel*

Before we start, I'd like to remind everyone that certain statements made during this conference call, including statements concerning future strategies, intentions and plans, may constitute forward-looking statements within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-statements are not historical in nature and can be identified by words such as believe, expect, anticipate, estimate, project, plan, should, or similar expressions, or by references to strategies, plans or intentions.

As described under item 1A of our Annual Report on Form 10-K filed on March 15, 2013, forward-looking statements are subject to a variety of risks and uncertainties that could cause the Company's actual results to differ from its beliefs, expectations, estimates and projections. Consequently, you should not rely on these forward looking statements as predictions of future events. Statements made during this conference call are made as of the date of this call and the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

I have with me today on the call Larry Penn, Chief Executive Officer of Ellington Financial; Mark Tecotzky, our Co-Chief Investment Officer; and Lisa Mumford, our Chief Financial Officer.

Larry Penn - *Ellington Financial LLC - President and CEO*

Thanks, Sara. As always, it's our pleasure to speak with our shareholders this morning as we release our first quarter 2013 results. We all appreciate your taking the time to participate on the call today. We will follow the same format as we have for the past several quarters. First, our CFO, Lisa Mumford, will run through our financial results. Then our co-CIO, Mark Tecotzky, will discuss how the MBS market performed over the portion of the quarter, how we positioned our portfolio and what our market outlook is going forward. Then I'll close our prepared remarks and we will take some questions.

In addition to our earnings release, yesterday evening we posted our first quarter earnings conference call presentation to our website, www.ellingtonfinancial.com. You'll find it right on the For Our Shareholders page, or alternatively, on the presentations page of the website. Lisa and Mark's prepared remarks will track the presentation, so it will be helpful if you have this presentation in front of you and turn to page 3 to follow along. While you're getting that in front of you, I'm going to turn it over to Lisa.

Lisa Mumford - *Ellington Financial LLC - CFO*

Thank you, Larry, and good morning, everyone. My remarks are based on the slides beginning with our P&L attribution table on page 3 and the two summary slides following it. Looking at the attributions table on page 3, you can see that for the quarter we earned $40.3 million, or up $1.94 per share, which equates to a non-annualized return on equity of 7.8%. Our non-Agency MBS strategy provided 98% of our total gross P&L for the quarter.

In our non-Agency strategy, for the fifth consecutive quarter, our income here was driven by interest income as well as net realized and unrealized gains. During the quarter, we continued to augment yields earned on the portfolio with trading gains. Notably, net realized and unrealized gains contributed to -- combined to contribute $1.97 per share to our gross P&L for the quarter. We turned over just under 20% of the portfolio during the quarter.

Additionally, as of March 31, 2013, net unrealized in the portfolio were in excess of $66 million, and as measured by value, the bond portfolio grew to approximately $585 million as compared to approximately $557 million as of the end of 2012. Average holdings based on amortized cost increased to $514.4 million at the end of March from $494.2 million at the end of the fourth quarter. Weighted average yields based on cost for the quarter was 9.4% compared to 9.7% in the fourth quarter.

In our Agency strategy we earned gross P&L of $734,000 or $0.04 per share. Interest income of $0.30 per share was muted somewhat by net realized and unrealized losses on our Agency specified pools as the price premium for these pools relative to generic pools contracted during the period. Our hedges blunted some of the impact of the decline adding $0.04 to Agency gross profit. Active trading of both assets and hedges, including TBAs, has and continues to be the focus of this strategy.

As of the end of the first quarter, the Agency portfolio, as measured by value, increased to $861 million as compared to $774 million as of the end of 2012. During the fourth quarter of 2012, many specified pools were trading at all-time highs relative to their TBA counterparts. We took advantage of these historically high levels and actively sold many of our specified pools to capture gains, replacing these positions with lower-priced, nontraditional prepayment protected positions.

Our weighted average holdings of long Agencies based on amortized cost was approximately $833 million in the first quarter compared to $669 million in the fourth quarter. Our overall average cost of funds declined 19 basis points over the quarter to 80 basis points as our average borrowings were more heavily weighted to our long Agency RMBS, as we ramped that portfolio up in the latter portion of the fourth quarter of 2012. Quarter-over-quarter, our leverage ratio increased slightly to 1.86 to 1 and we continue to find repo readily available.

Core expenses, which includes other operating expenses and base management fees and excludes incentive fees and financing costs, came in at 2.8% of average equity on an annualized basis, and these expenses were in line with our expectations. We incurred incentive fee expense during the quarter since, on a rolling four quarter basis, our results were in excess of the return hurdle.

Our diluted book value per share of $24.78 at the end of March compared to $24.38 at the end of December. This increase represents growth of 1.6% and that's after the payment of a quarterly and special dividend that amounted to $1.52 per share, or 6.2% of year-end diluted book value.

Finally, we recently declared our first quarter dividend of $0.77 per share, which will be paid on June 17 to shareholders of record as of May 31. You will recall that our dividends are paid quarterly in arrears and at the end of each year our Board will consider our earnings and other factors to determine the amount of a special dividend, if any. Based on our closing price yesterday of $25.95, our dividend represents an annualized yield of 11.9%. With that I turn the presentation over to Mark.

Mark Tecotzky - *Ellington Financial LLC - Co-Chief Investment Officer*

Thanks, Lisa. Two powerful forces drove our performance in the first quarter. First was the strong risk-on move that happened over the New Year's holiday driven by the resolution of the fiscal cliff crisis. That risk-on momentum carried on throughout the first quarter. The second factor was continued strong housing data that has been aggressively embraced by the market.

In addition, we saw many opportunities to upgrade our portfolio in the first quarter that we took advantage of. We perceived big changes in the relative value of many sectors of the market. Our portfolio management efforts attempted to sell securities to hedge cheap prices where they were no longer the most attractive asset on a risk reward basis and replace them with securities that we believe have a better total return potential.

We view our use of an active trading style to capture incremental returns as critical to providing long-term return to shareholders. That is the point of active management -- to capture returns above and beyond the market beta. As we are now in a pricing regime, where the amount of distress implied by asset prices is significantly less than the year ago, incremental returns become increasingly important.

You look on slide 10, let's talk about how the portfolio evolved during the quarter. We added to our non-agency positions. We believe that non-Agency yields would compress as better housing data became firmly cemented in the psyche of the market. You can see the green sector labeled Other expanded as we added to our CLO positions. This has been a new initiative for us where we've added resources, and we've been pleasantly surprised at some of the CLO opportunities that we've been able to take advantage of.

You can see the market price of the portfolio jumped almost 9 points. Some of that was the market move and some of it was a function of active trading as we sold lower dollar priced securities that had appreciated in value and bought higher priced ones. This repositioning had to do with the market making such a violent risk-on move over the New Year's Day holiday.

When you came into your first day of work in 2013, it was a rally in prices but it looked to us as though it was indiscriminate. Some securities went up in price too much relative to some others; we wanted to reposition the portfolio partially as a result.

Page 11. Look on the lower right -- 6.77% yield. These yields to look attractive relative to other sectors, especially given the strong move up in home price to be a witness. Now that you're seeing some home prices outpace core measures of inflation, you have to think about this yield in the context of the TIPS market, where real yields are negative through the 10 year. Much wider than high yield, so there is a lot of fundamental value in the non-Agency MBS.

The returns in the stock came from two components -- dividends and increases in book value. So, while the yield on the portfolio has come down, we are constructive on the total return potential in non-Agencies. We also want to point out now that yields have come down in -- I also want to point out, now that yields have come down in quarters with volatility, returns are going to be more driven by broad market moves in the sector and through active trading than they are by yield capture.

This quarter was a good example. We wound up being up 7.8% for the quarter, which is on par with on our portfolio yields over the course of a year. One thing we have mentioned before was our belief that as the market recovers, yields on our portfolio would decline, which they have, but that market recovery would be accompanied by the emergence of new opportunities. To take advantage of new opportunities, we have recently beefed up our residential loan team.

Over the years of EFC we have always kept our eye on the loan market. Our opinion was that once you properly valued liquidity, trading opportunities, rep and warrant risk, modification obligations and all the other factors that make loans much messier than securities, securities provided the better total return opportunity.

Now that you have seen much more supply of loans and the relative value -- the relative value trade-off is a lot closer. We have added a trading resource; we are building our loan models, and soon we will be actively looking for loans. We will proceed at a measured pace because loans are much easier to buy than they are to sell and can come with servicing obligations, legal risks and a myriad of other complexities that are not part of securities. You will see some others move more quickly but I can almost guarantee that moving aggressively can come with unintended consequence.

Page 12. If you look at the hedging, we were very light in ABX. The CMBX is a hedge for our cash bonds. We were short some corporate credit that rallied in the quarter, so it hurt us but the size was small relative to our investment in credit sensitive non-Agency RMBS.

Page 14, the Agency portfolio. Agency pools cheapened up in a few dimensions in the first quarter. First, Agency MBS, both TBA and specified pools, underperformed their logical non-mortgage hedges, swaps and treasuries. Additionally, the pay upon specified pools came down without much of a move in interest rates. We added positions. I think that was the logical response.

Because the Fed is the biggest buyer of agency mortgages, but unlike every other investor, trying to do profitable trade is not the primary motivation, investors should expect volatility in Agency strategies. We certainly controlled it last quarter by having a large TBA short at the start of the year. The volatility in the Agency market will come as investors are going to be hypersensitive and will take apart every economic number to see how that impacts their expectations for the tenure of QE3.

We think that potential volatility will create some interesting opportunities. In addition, not really a Q1 event, but in the past week, Mel Watt has been nominated for director of FHFA. That will create some volatility as the marketplace tries to infer what representative Watt's agenda might be if he assumed the role. I'd now like to the presentation back over to Larry.

Larry Penn - *Ellington Financial LLC - President and CEO*

Thanks, Mark. As you know, our goal at Ellington Financial is to capture upside in good markets while controlling downside in rough markets. The first quarter of 2013 was actually a great example of this in a very interesting way. Namely, we captured the upside in our non-Agency strategy when non-Agency RMBS performed very well during the quarter, and we controlled the downside in our Agency strategy and what was actually a rough quarter for Agency RMBS.

And as I'll discuss in a moment, the way that we captured upside and controlled downside in these two markets is just by continuing to focus on those things that we think really differentiate Ellington Financial in the space. Active trading, sector rotation, dynamic hedging and rotation of hedges, all informed by our extensive, proprietary research and years of market experience.

Let's start in the non-Agency strategy, where we captured the upside during the quarter. Now in non-Agencies we were position for prices to rise and they definitely did rise. But, as usual, we didn't just ride the tide. We generated lots of additional income by actively trading the portfolio. As we have noted before, big market moves can often result in mispricings, and therefore big moves often present great opportunities for us to rotate our portfolio.

The big upward move we've seen in the last several months is no exception. Basically, we believe that many of the more distressed, lower-priced non-Agency RMBS have risen too far relative to many of the less distressed, higher-priced, non-Agency RMBS. So, as Mark mentioned, we actually took profits in lower-priced securities during the quarter.

I'd like to spend a moment to explain what our thinking is here. We believe that the burnout we have seen in the default rates of many non-Agency pools will continue. After all, any borrower who has remained current on their mortgage in the nearly 6 full years since the housing crisis began is much less likely to default now. We believe that the market is undervaluing the impact that this phenomenon will have on the performance of some of the cleaner, higher-priced pools.

On the other hand, we also think that the market is underestimating the loss severities that will ultimately be experienced in many of the lower-priced pools where a higher percentage of the loans have remained in limbo. Delinquent but still not foreclosed on for many years. So, when you see that the average dollar price of our non-Agency MBS rose during the quarter, keep in mind that this was not just a result of rising prices. It was also the result of sector rotation.

In fact, the average sales price of the non-Agency RMBS that we sold during the quarter was in the low 60s area and average purchase price of the non-Agency MBS that we purchased during the quarter was in the low 80s. And, remember, the views that inform these and other portfolio maneuvers are not just based on anecdotal evidence. They're based on hard data.

Yes, Ellington's Head of Research is an economist, but you can't pin on our research efforts that old joke about economists for whom the plural of anecdote is data. Our views on borrower behavior and loan loss severities wouldn't be possible without our commitment to research and analytics, pouring over and analyzing vast amounts of loan level data, on borrower behavior, servicer behavior, loan loss severities, housing and census data, geographic variability, and so on.

With Non-Agency MBS yields having compressed quite a bit from a year ago, we believe that our ability to differentiate and rotate among these complex securities will be even more important now.

Let's move on to the Agency strategy, where we controlled the downside. Actually even made some money during the quarter. As we mentioned on our previous earnings call, as prices and pay-ups were reaching new highs in the fourth quarter of last year, we did two important things going into year-end. We maintained a relatively low average pay-up and we increased our TBA hedges. In fact, coming into the year, our average pay-up was just slightly over 0.5 points and about 70% of our hedges were in TBAs.

These risk-reduction measures turned out to be just the right moves at just the right time. Pay-ups ended up contracting, the mortgage base has widened, and as a result and as many of you know, many REITs reported significant book value declines. In contrast, Ellington Financial was actually slightly profitable in its Agency strategy during the quarter.

I'm really proud of the job that Mark Tecotzky and his Agency pool team did in preserving capital in what was clearly a challenging quarter. As a result, we now find ourselves superbly positioned to take advantage of some excellent entry points in specified Agency pools.

As we look forward, we remain very upbeat about the outlook for Ellington Financial. Within our non-Agency strategy, the real driver of our returns, the market still offers excellent value and we believe that we will continue to see attractive opportunities to invest in and trade assets. Not surprisingly, as the legacy assets in the non-Agency MBS markets, such as legacy subprime assets, continue to return closer to normalcy, other avenues are opening for us.

We think the CMBS market will continue to provide opportunities for us. We believe that nonperforming small balance commercial loans, while currently only a small portion of our portfolio, will eventually become a meaningful contributor to our bottom line. Another growth area for us is residential whole loans. This is an area that Ellington already has deep experience in.

Since the onset of the financial crisis, however, we've just seen far superior value in legacy non-Agency securities than in residential whole loans. The volume of residential loan sales by banks, particularly the sales volume of distressed loans, has been quite low for some time. In fact, we still think that residential loans remain overpriced, and that even goes for non-performing and re-performing loan packages.

However, we think that a steady supply of distressed residential loans is finally coming, most notably from HUD, as it finally comes to grips with the incredibly large number of defaulted FHA/VA loans. We have recently added another residential loan trader at Ellington and we are gearing up for what we see as an oncoming opportunity.

Finally, we are also actively evaluating entering the mortgage origination space, for four primary reasons. First, lenders are reluctant to lend. Even well-qualified borrowers are having too difficult a time getting mortgage loans. Second, we'd be good at it, especially with our deep market expertise.

Third, while we would expect that most of our loan production would initially be in Agency mortgages, since that still offers the optimal execution and highest profit margins, we would also plan to originate non-Agency mortgages, and this could eventually become a significant source of new investments for Ellington Financial. Last but not least, given the market dynamics I just described, we strongly believe that this will be a profitable business line.

So, we are committed at Ellington Financial to take the broadest possible view of our mandate in the mortgage space. We are not a one trick pony. And we don't think that being a one trick pony is the best way to deliver attractive returns for shareholders over market cycles. Ellington Financial's flexible structure helps make this possible.

This concludes our prepared remarks. Before I open up the call for Q&A, I would just like to remind everyone that, as usual, we'll be happy to respond to questions to the extent they are directed to matters related either specifically to Ellington Financial, or more generally to the mortgage and asset-backed marketplace in which it operates. We will not be responding to questions on Ellington's private funds or other activities.

Many of you may have heard that within the past week, Ellington, with Blackstone as a strategic investor, priced the initial public offering of Ellington Residential Mortgage REIT, New York Stock Exchange EARN, or earn. Ellington Residential Mortgage REIT, with its primary focus on agency RMBS, will have a very different focus from that of Ellington Financial, which as you know, is primarily focused on non-Agency opportunities.

While we are also very excited about Ellington Residential, if you're interested, we will be hosting an informational conference call for Ellington residential in the coming weeks. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Steve DeLaney, JMP Securities.

Steve DeLaney - *JMP Securities - Analyst*

Good morning, everyone, and congratulations on an excellent first quarter. I wanted to follow-up on the commentary about the non-Agency market, but specifically -- rather than the legacy paper, I'm sure you guys are tracking the new issue RMBS 2.0 market. And we are seeing -- we saw that market back up pretty significantly in March.

And I guess we've got AAAs about 1.70% over swaps, and I compare that to CMBS, which you mentioned with AAAs or super seniors at 0.85% over swaps. And I was curious, your thoughts about that disparity between those two markets. And if you think new issue is attractive, especially, Larry, as you tie this into your origination capability, which may cause you to have some of your own paper.

But as you look at this market right now at 1.70%, and sort of up and down the capital stack, at 1.70% over, in addition to your general comments, do you see it as a more attractive place for you to be an investor, or to potentially be an issuer given those spreads? Thanks.

Mark Tecotzky - *Ellington Financial LLC - Co-Chief Investment Officer*

Sure. Hey, Steve, it's Mark. So, yes, I would say if you look at the non-Agency, Mark, if you look at the new origination in non-Agency, it's still small. But I think what's interesting is that there are a few Redwood deals that priced at the end of last year at really tight levels. Small volume. And as they ramped up the volume a little bit, they weren't able to clear deals at the same spread to swaps as they had been.

So, that caused the widening. And when we look at those bonds, our view is that we still see better opportunities in legacy non-Agencies. And I think the primary driver is the prepayment function. So, if we look at the legacy non-Agency market, especially some of the sectors we've been buying that are loans that -- maybe the borrowers are a little bit underwater, but not significantly. They have seen home price gains in the past year. They are chipping away at their loan balance through amortization, but you can still buy those securities assuming very slow rates of voluntary prepayments.

On the jumbo side, if you look at what the historical speeds -- if you go back to the earlier Redwood deals from 2011, beginning of 2012, what you see is a prepayment function that -- you're basically buying into those deals generally around par, and what you get is a prepayment function where the loans can pay very fast, 35, 40 CPR, if there is a rally in mortgage rates.

But if there is a selloff in mortgage rates you can get extremely slow speeds. So, that prepayment volatility is a function of rates on a par coupon bond, gives it a higher hedging cost. And that's why, even though -- it obviously looks more attractive to us now than it did when it was tighter, say, five months ago.

But when we compare that to what we get on the legacy side, where we can buy securities that we think are going to increase in prepayment speeds; we are buying them at a discount. You're buying to very slow speed assumptions and you have this sort of wildcard about potential policy changes, right? So, you talk about things -- if Representative Watt might contemplate if he were to get into FHFA, it's conceivable that he could do something almost like a HARP program for non-Agencies, which could significantly improve voluntary prepayment.

So, we don't -- that's not our base case expectation, but I think that is an out-of-the-money option, we are long in buying those. So, I would say that the non-Agency 2.0, it looks closer relative to legacy now than what it did, say, four or five months ago, because legacy non-Agency has rallied and the new issue has widened. We still like the legacy non-Agency better.

Larry talked about our interest in origination potentially down the road. I think that will be a bigger part of the origination market, especially if you saw any further loan balance restrictions out of Fannie and Freddie.

Larry Penn - *Ellington Financial LLC - President and CEO*

And I'd like to just add one thing to that, which is that, in addition to the much worse prepayment characteristics -- the greater risk of extension and prepayment on the new issue -- you have to also realize that the new issues, they get ratings, they get fresh ratings. And (multiple speakers) banks.

Banks and other people that are basically going to buy and hold them and they need that rating in order to buy them. A lot of the legacy stuff is never going to have the type of rating, just by virtue of the way that the rating agencies look at it, it was never going to have the kind of rating that a bank is going to need to be able to hold that in portfolio.

So, if we buy something at a price of 80, and we think you're going to return $0.95 on the dollar, that's not 100 cents on the dollar, so the rating agencies are not going to give that the rating that someone needs. So, there's also that, what I would call artificial aspect to it as well, which is, for us, again draws us to the legacy where there's greater value.

Steve DeLaney - *JMP Securities - Analyst*

And that's very helpful. And just a short follow-up. On the yield that you indicate on page 11 for your non-Agency portfolio using your HPA forecast, your north of 6% -- we see a lot of fixed income research every week, just the weekly structured finance pieces. And everybody is kind of talking 3%, 4%, 5% type of yields on legacy non-Agency. What's the big difference there? Is it really just the scenario you have for defaults and severity versus what's probably the dealers are pricing into their bonds? Hello?

Larry Penn - *Ellington Financial LLC - President and CEO*

Yes, yes, sorry. We are just figuring out who's going to take the call. So, I think Mark --

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Mark Tecotzky - *Ellington Financial LLC - Co-Chief Investment Officer*

I would say, Steve, that we typically -- we don't just buy the market as a whole. If you look at our holdings, they are not representative of the market. We have very little option arms. We've moved around our '06, '07 subprime exposure a lot. So, I think when we look at the market, we look at where securities trade over time. We typically are involved in maybe 1% to 3% of what trades in a given quarter, and we are selecting the 1% to 3% that we think is a couple hundred basis points wider than the market. So, I think that's it.

Steve DeLaney - *JMP Securities - Analyst*

Okay, so it's really just -- it's specific asset selection and you're looking at so granularly you think you can find basically some hidden gems in there, rather than just what the generic yield indications might be.

Larry Penn - *Ellington Financial LLC - President and CEO*

The research that you are seeing certainly doesn't cover things like manufactured housing. It certainly doesn't cover thing like legacy CDOs, and those are two of the (multiple speakers) asset class.

Steve DeLaney - *JMP Securities - Analyst*

Correct. Yes, no, just generic born AAA pass-throughs, yes. All right, well thank you so much for the comments, and again, great quarter.

Larry Penn - *Ellington Financial LLC - President and CEO*

Thank you, Steve.

Operator

(Operator Instructions). Mike Widner, KBW.

Mike Widner - *Keefe, Bruyette & Woods - Analyst*

Good morning, guys. Wondering if you could talk maybe a little bit more about the teaser you threw out there on getting into mortgage originations, and I guess just a specific couple questions on that. Where would you see the infrastructure from that being housed from a legal structure? Is that inside of EFC or is that back at the parent company, or how might that work? And it's a little different being an operator than it is being a portfolio company and I guess we've always thought of you as a portfolio company. So, should that change our thinking at all?

Larry Penn - *Ellington Financial LLC - President and CEO*

Yes, I think -- obviously, this is all exploratory at this point, but from a structural standpoint, that's one of the things that's great about our structure, it is flexible. We can do things like this. But to preserve our PTT status, our pass-through tax treatment, we would house this in a corporate subsidiary. So, any business like this would have to be housed in a corporate subsidiary, of course.

Assets that are produced could be upstreamed to the parent, but the actual operations would be in a corporate sub. So, that's I think the first question, was structural. In terms of being an operating company, obviously we would look to -- were we to do this, we would look to hook up with the best people in the space. And -- that's -- really can't say more at this time. That's really all that -- at this point, we're just talking and exploring. But it's something that we think, long-range, makes a lot of sense for us, and as I mentioned, for many different reasons.

Mike Widner - *Keefe, Bruyette & Woods - Analyst*

Got you, appreciate that. Let me just ask you a little bit, you talked about some of this on the Agency side, but just looking for some more current thoughts. One of the best trades we see, or least most attractive yield opportunities we see some of the other -- the mortgage REITs talking about right now, are the TBA dollar roll markets, forward purchases, whatever on the low coupon Fannie 30s.

And just wondering how you view that on a risk-adjusted return basis. Is that something that -- it's hard to play that -- I guess, intuitively, it seems hard to play that as a hedge. I know you're already short a bunch of TBAs, but I'm just wondering if you talk a little bit about how that trade, if you will, might fit into your strategy.

Larry Penn - *Ellington Financial LLC - President and CEO*

Sure. I think there were definitely times when those traits make sense in limited size. Because the Fed -- because of the size its purchases, and the fact that it creates a lot of short squeezes, but then they are using the mortgage market as a transmission mechanism of Fed policy. They are not like every other investor that's trying to make money.

So, they create these short squeezes but they don't monetize it. So it opens the door for others to monetize it. So, I think those trades can definitely make some sense, part of a portfolio. I think that people need to realize that it is -- the premise of those trades and the attractiveness of those trades are premised on people's expectations of how long QE3 is going to stay in place potentially.

So, if you had a crystal ball and you knew when QE3 was going to end, that would definitely inform your opinion of that trade. We don't have that crystal ball, so that's why I think when it makes sense, it would make sense for us as part of a portfolio strategy, but not the dominant one. I also think that those trades can get people away from their core competence, in that we have a lot of prepayment data here; we think we understand a lot about how servicers behave; we understand a lot about how credit scores impact borrowers' ability to prepay; how LTVs impact borrowers' ability to prepay; how loan level price adjustments increase -- impact borrowers' ability to prepay.

When you get into the TBA market, you're no longer leveraging that base of knowledge or that experience. So, that's another reason why, for us, I think it can make sense, but as part of a portfolio, not as the dominant thing. Because it's a commoditized trade; there's no barrier to entry in it; the things that we have put a lot of our resources into in research about trying to be thoughtful in understanding the payments, they don't come to bear in that trade.

But I definitely think that they can look attractive and they make sense. But for us, because of the fact that it is very much -- the attractiveness that is very much contingent on the length of QE3, which we don't have insight above and beyond the other market participants. And the fact that it doesn't leverage off any prepayment expectations expertise, would cause us to keep it in relatively small size.

Mike Widner - *Keefe, Bruyette & Woods - Analyst*

That makes a lot of sense. In essence, if I could paraphrase, you are sort of calling a mindless trade that just happens to be generating great yields and great effective returns right now. But it's just too unpredictable to make it a core part of the strategy in this particular vehicle.

Larry Penn - *Ellington Financial LLC - President and CEO*

I don't think it's mindless at all. I think there's lots of ways to be a good manager in this space. But predicting interest rates, predicting Fed behavior, that's not something where Ellington has put significant resources, so we don't want to take significant risk on trades that the outcome is largely determined by those factors.

I think there are definitely managers in this space that put a lot more -- or just generalist mortgage managers that put a lot of resources into being thoughtful about direction of interest rates, shape of the yield curve, Fed policy activity. And I think if you put resources there and have a good track record of doing it, I don't consider it mindless.

I just think that we haven't built up our resources to predict Fed behavior the way we've built up our resources to understand prepayments. And so for that reason, while it looks attractive, we would limit the size of it.

Mike Widner - *Keefe, Bruyette & Woods - Analyst*

Yes, well, so I probably didn't mean to be as denigrating as it might have sounded with the term mindless, but just, really, purely from the standpoint that is hard to find anything at all, and I'm not sure there is anything at all in the Agency MBS space that, month-to-month, assuming the Fed is going to continue QE infinity, I just don't see anywhere else you're getting that kind of yield.

It's a less complicated place to get month-to-month yields, I think, than trying to be very selective about specified pools and so on and so forth. So, mindless just from the standpoint that it's easy; you don't know when it's going to end.

Larry Penn - *Ellington Financial LLC - President and CEO*

Yes, right.

Mike Widner - *Keefe, Bruyette & Woods - Analyst*

Well, I appreciate the thoughts and comments as always, guys, and congrats on a solid quarter.

Larry Penn - *Ellington Financial LLC - President and CEO*

Thank you.

Operator

There are no further questions at this time. I would now like to turn the floor back over to Larry Penn for closing remarks.

Larry Penn - *Ellington Financial LLC - President and CEO*

Thanks, operator. Look, everyone, we had a really strong first quarter, building on our excellent results in 2000. As, you can tell, there is no shortage of interesting things to do in this market and we are very excited about how the rest of 2013 is shaping up. So, thanks, everyone, for participating on the call.

Operator

Ladies and gentlemen, this concludes Ellington Financial's first-quarter 2013 financial results conference call. Please disconnect your lines at this time and have a wonderful day.
