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PRESENTATION

Operator

Good morning ladies and gentlemen. Thank you for standing by. Welcome to the Ellington Financial Third 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 Sylvia Hechema, Investor Relations. You may begin.

Sylvia Hechema - *Ellington Financial LLC - IR*

Before we start, I would 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-looking statements are not historical in nature, and can be identified by words, such as "believe," "expect," "anticipate," "estimate," "project," "plan," "continue," "intend," "should," "would," "could," "goal," "objective," "will," "may," "seek" or similar expressions, or by reference to strategies, plans, or intentions. Forward-looking statements are subject to risks and uncertainties, including, among other things, those described under Item 1A of the Company's Annual Report on Form 10-K filed on March 15, 2013, that could cause the Company's actual results to differ from its beliefs, expectations, estimates, and projections. Other risks, uncertainties and factors that could cause actual results to differ materially from those projected, may be described from time to time in reports we file with the SEC. 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. Okay, I have on the call with me today Larry Penn, Chief Executive Officer of Ellington Financial, Mark Tecotzky, our Co-Chief Investment Officer, and Lisa Mumford, our Chief Financial Officer.

With that, I will turn it over to Larry.

Larry Penn - *Ellington Financial LLC - CEO*

Thanks Sylvia. Once again it is our pleasure to speak with our shareholders this morning as we release our third quarter results. As always we appreciate your taking the time to participate on the call today. We will follow the same format as we have on previous calls. First, Lisa will run through our financial results. Then Mark will discuss how the MBS market performed over the course of the quarter, how we positioned our portfolio, and what our market outlook is. I will follow with some closing remarks before opening the floor to questions.

As a reminder, we have posted a third quarter earnings conference call presentation to our website www.ellingtonfinancial.com. You will find it right on our Shareholders page or alternatively on the Presentations page of the website. Lisa and Mark's prepared remarks will track the presentation.

So if you have this presentation in front of you, please turn to page three to follow along. I'm going to turn it over to Lisa.

Lisa Mumford - *Ellington Financial LLC - CFO*

Thank you, Larry, and good morning, everyone. On page three of the presentation, you can see that for the quarter ended September 30, 2013, we earned $11.7 million or $0.45 per share. On a sequential quarter over quarter basis, income was essentially flat although in the current quarter we had approximately 2.4 million more shares outstanding as a result of our second quarter follow-on equity offering. Those shares were outstanding for the entirety of the third quarter. Our nine month return on equity was 11.1%.

Within our non-Agency strategy, we had gross income of $15.1 million or $0.58 per share, compared to $17.7 million in the second quarter or $0.74 per share. In the third quarter we had net interest income of $13.2 million, compared to $11.1 million in the second quarter. Net interest income is interest income less interest expense. While our book yields increased slightly quarter over quarter to 8.67% from 8.61%, the more material driver here was the increase in the size of our portfolio. Our average holdings based on amortized cost were $715 million in the third quarter, while for the second quarter our average holdings were $590 million. You may recall that we deployed the vast majority of the net proceeds from our second quarter equity offering in our non-Agency strategy.

The other key driver of our third quarter non-Agency results was net realized gains, which when combined with net unrealized losses was a net gain of $6.7 million. During the quarter, excluding principal paydowns, we turned over about 20% of the portfolio, which generated net realized gains. Mark will talk more about the sectors we traded into and out of, but as a result of the portfolio turnover we lowered the overall cost of our portfolio by about 3.2 points, thereby creating additional upside potential. While our net interest income and net gains on the portfolio were higher in the third quarter relative to the second, our second quarter results benefited significantly from income on our interest rate hedges, as rates rose sharply during that quarter.

In our Agency strategy, our gross income was $3.1 million or $0.12 per share in the third quarter, up from a gross loss of about $600,000 in the second quarter or $0.02 per share. Our net interest income increased to $7.7 million in the third quarter, from $6.9 million in the second quarter. Here too, our average holdings increased. Average holdings over the third quarter were approximately $944 million, while in the second quarter our average holdings were $857 million. Additionally, our sequential quarter over quarter book yields increased 6 basis points to an average of 3.63%.

Net changes in asset values and net realized losses combined to contribute net unrealized gains of $2.7 million. As a result of the large drop in interest rates near the end of the quarter, we had net losses on our interest rate hedges of $7.3 million. Included in this category are our net short TBAs, which rallied significantly in the quarter following the no-taper announcement by the Fed. All in all, our third quarter results improved over the second, as yield spreads generally tightened.

Our core expenses were 2.7% of average equity, and that is in line with our expectations. The size of our long non-Agency portfolio was essentially unchanged quarter over quarter at just under $800 million, and our Agency portfolio increased about $120 million to just under $1 billion. Our outstanding repo increased slightly. As of September 30 it was $1.345 billion and at June 30 it was $1.288 billion. Our debt to equity ratio increased to 2.14 to 1 from 2.02 to 1. While repo financing has been getting a fair amount of press lately, we have found that some of the larger banks have an increased appetite to provide repo on non-Agency assets, and we found some smaller banks attracted to the opportunity to provide repo financing for Agency RMBS. All in all, repo financing has remained readily available, and our rates and haircuts have not been negatively impacted.

On Monday, our Board of Directors declared a third quarter dividend of $0.77 per share. Year-to-date dividends paid and declared related to 2013 earnings equal $60.1 million, or approximately 94% of year-to-date earnings. Based on yesterday's closing stock price of $22.95, our annualized dividend yield equates to 13.4%. I will now turn the presentation over to Mark.

Mark Tecotzky - *Ellington Financial LLC - Co-CIO*

Thanks Lisa. There was extreme volatility in the quarter in multiple dimensions. First, extreme interest rate volatility. Ten year and five year swap rates traded in a 50 basis point yield range. 30 year Fannie Mae 3.5s traded in a 4 point price range. There was also a lot of volatility in credit spreads - the High Yield index traded in a 4 point range. The High Yield index volatility has nothing to do with interest rates - those are just schizophrenic risk-on/risk-off moves. There wasn't a big difference between starting and ending points for a lot of indices and benchmarks, but there were extreme ups and downs within the quarter. These extreme valuation swings created a lot of opportunities for us.

So look at the non-Agency portfolio on page 10. It stayed the same size, so it looks like we didn't do much but we actually did a lot. We very actively rotated the portfolio. We turned over 20% of the portfolio, and dropped our weighted average dollar price by 3 points, and increased our loss adjusted yield. The portfolio construction that allowed us to be so active and so opportunistic this quarter was our low leverage, a little over 2.1. Leverage level is one of the biggest differences between EFC and many mortgage REITs.

Everyone knows leverage amplifies returns, both gains and losses. Leverage does something else. High levels of leverage generally force a manager to be pro-cyclical, as opposed to counter-cyclical. What has that meant for mortgage managers the last couple of quarters? Many companies had book value declines when interest rates shot up, or when credit spreads widened. Faced with declining equity, they sold assets to prevent their debt to equity ratios from going too high. That is a pro-cyclical dynamic, selling after prices have already dropped.

We increased the yield in our non-Agency portfolio in the quarter, where broadly speaking prices from the start of the quarter to end of the quarter were actually up a bit. This was accomplished through active trading. We sold higher priced securities and bought lower priced securities that had both better yield and better upside potential. We were able to do this because we did not have to behave defensively during the quarter. Instead we were able to take advantage of the volatility in the quarter. We were not scrambling to protect ourselves from it. Volatility often creates opportunities, but you have to be in a position to take advantage of it while it is happening. You can't be so off-sides that you become the forced seller. We have positioned ourselves with lower leverage so that we can proactively react to market dislocation, as opposed to being held hostage by market dislocations.

Another takeaway from the quarter in non-Agencies is our ongoing efforts to diversify sources of return continued. We are always looking for new ways to generate returns. We increased CMBS, we are active in CLOs, and post-quarter-end we obtained a new non-Agency opportunity that Larry will discuss in a few moments. We continue to see lots of areas to add excess returns, and as the mortgage market evolves, so will our portfolio composition and trading strategies. On slide 12 you can see that our credit hedges are currently concentrated in corporate hedges, as we believe that mortgage and structured product credit exposure is significantly cheaper than investment grade and high yield corporate credit.

We also played offense on the Agency side. We grew the portfolio. We took advantage of the volatility to buy MBS at what we think are attractive level versus swaps. We saw some better opportunities in ARMs than we have seen in years. On slide 15 you can see that in response to mortgage underperformance early in the quarter, we decreased our mortgage hedge and increased our swap hedges.

So, to summarize our portfolio activity this quarter, I would say that we were well positioned with a lot of cash to take advantage of the relative value opportunities created by all the rate and spread volatility. We traded very actively in the quarter, not only to protect book value when necessary but also to generate excess returns created by the forced deleveraging of many fixed income players.

With that, I would like to turn the presentation back over to Larry.

Larry Penn - *Ellington Financial LLC - CEO*

Thanks Mark. Similar to the second quarter the third quarter was filled with extreme interest rate volatility, but once again, Ellington Financial was able to capture upside, control downside, and distinguish itself from many of its peers. As you can see on our earnings attribution table on page 3 of the presentation, we were again profitable in both our non-Agency and our Agency strategies. Now things got off to a stormy start when the 10-year Treasury rose a full 24 basis points in just one day on July 5.

However, we were able to "play offense" both then and throughout the entire quarter. In fact, we slightly increased our leverage this quarter, as excellent asset acquisition opportunities presented themselves each time a new shock hit the mortgage market. Compare the increase in our leverage over the quarter to our peer group, who almost all reduced their leverage during the quarter. How was Ellington Financial able to do this? By controlling its interest rate duration through disciplined hedging. By keeping leverage lower in the first place. We want to be able to buy when others are feeling pressure to sell, and that is exactly what we were able to do this quarter. Sure, by keeping our leverage lower, our core "run rate" is slightly lower than it could be, but the flexibility and security that lower leverage and higher liquidity provides is well worth it to us. We want to be able to withstand greater financial shocks, and "pounce" when opportunities arise, such as when a European bank auctions off a large portfolio. We can trade the portfolio more actively, which we love to do, and which has been a consistent and significant component of our earnings. In fact, if you are in the camp that believes that the financial system will probably bounce around in a range for a while but avoid big shocks, then I would say look for a higher proportion of our income to continue to come from active trading. This past quarter really demonstrates the benefit. Not only were we profitable on a fully mark-to-market basis, but at the same time the market yield of our non-Agency portfolio actually increased by about 40 basis points in the quarter, so I would say that through active and profitable trading we really set ourselves up well for future quarters. Now while at first blush our financial results for the third quarter might not look so remarkable one way or the other, there are some subtle developments I would like to point out. Look at the non-Agency portfolio pie charts on page 10. You can see a pretty significant rotation out of Seasoned Subprime and into Alt-A and other sectors. And look at those five pie slices at the top of the September pie chart. That is basically everything other than the bread-and-butter Subprime/Alt-A assets. Those other sectors now total a full 39% of our portfolio. It includes lots of our growth areas, including CMBS, CLOs, and nonperforming commercial mortgage loans. You can see that we have been diversifying into many other sectors. Granted away from our CMBS most of these sectors are still pretty much "legacy assets" that were created before the financial crisis, but that is because that is still where most of the value is.

To the extent that competitive opportunities arise in non-legacy assets over the next few years, well then you will see our asset allocation evolve accordingly. In fact, as we increase the number of pie slices while each one gets thinner as a percentage of the whole, it's almost easier to make strategic portfolio re-allocations and maneuvers. Ellington has expertise and experience broadly across the MBS and ABS markets, and our goal is for Ellington Financial to capitalize on all manner of opportunities where we see value. Our PTP structure really helps here. We can diversify and re-allocate in so many different dimensions. Let me actually list some of these dimensions;

Agency versus non-Agency;

Residential mortgages versus commercial mortgages versus asset-backed;

Legacy versus newer issue;

Securities versus whole loans;

Cash bonds versus synthetics;

Securitization activities;

MSRs;

Performing assets versus non-performing assets.

On that last point, performing versus non-performing. We have talked before about how non-performing commercial mortgage loans is an area where we expect to continue to grow Ellington Financial's portfolio. Well on the residential side, I am happy to report that in the most recent HUD auction of non-performing residential loans, Ellington Financial was awarded some of the loans. We expect the trade to settle in stages over the next 90 days, and this first investment for Ellington Financial in this sector should end up being around a $23 million investment. As you may have heard, HUD is planning lots more auctions over the next 12 months, and we have been actively gearing up at Ellington to take advantage of that. This is a natural asset class for us. As we have discussed in the past when we buy distressed MBS - which is our bread and butter strategy - non-performing loans often make up 50% of the entire remaining pool.

So we know full well that the performance of these non-performing loans will make or break the performance of our distressed MBS. We can apply the same research and analytics to this HUD package and other non-performing loan packages that we apply to our MBS trading. Of course, when the loans are outside a securitization, we have much more control over our destiny. We can hire the best special servicers to maximize our outcome. We can supervise those servicers using Ellington's servicing oversight team; having that level of control is just not an option when you buy a typical MBS. And finally, these HUD packages are later stage defaulted loans, so they should be much closer to resolution. This makes these investments much shorter in duration than the typical distressed MBS investment.

Let me say a few words about some other future growth areas where Ellington Financial has not yet been active. First, securitization, especially of newer originations. This just hasn't been a strategy that we thought made sense in the past few years. We see much lower risk adjusted ROEs than what we see available in distressed MBS, but that will eventually change and Ellington has deep expertise in securitization, and obviously there could also be great synergies here with our efforts to establish a robust mortgage origination platform.

Second, MSRs, Mortgage Servicing Rights, this is definitely an asset class that could be a long-term growth area for us. MSRs are now expensive for banks to hold from a regulatory capital standpoint, and many non-bank mortgage companies don't want to tie up their capital with MSRs, so over time, this is a natural asset class for us. In the past few years, however, we just have felt that the Agency IO market offered better relative value, but that might change and we will be ready when it does.

Moving on to our Agency strategy, you can also see the advantages there of diversification, and of being nimble. As you can see on page 15 of the presentation, we started the quarter almost 50% hedged with TBAs, as opposed to swap-based instruments. As spreads widened, again we were able to play offense, we reduced our TBA hedge ending the quarter at only 33% TBA hedged, and we were thereby able to benefit from the mortgage basis tightening towards the end of the quarter. Being aggressive about varying the extent to which we hedge with TBAs, this is a dimension that we think really benefits Ellington Financial. Also, as Mark mentioned, a good opportunity in Agency ARMs presented itself in the quarter, and that is a factor that we certainly follow closely, but hadn't really seen value at least compared to fixed rate pools in quite some time. So we added ARMs during the quarter. In the last two quarters we have talked a lot about how the extreme weakness in the specified pool market is enabling us to construct a portfolio that we believe has great call protection. We will be very glad we did this if interest rates fall further, which is now a distinct possibility with the Fed seemingly on hold for a while, and lots of speed bumps on the road for the economy.

As you can see on our earnings attribution table on page 3 of the presentation our Agency strategy contributed almost 50 basis points to our ROE for the quarter. Sure, that is pretty reasonable performance for a strategy that uses less than 20% of our capital. But keep in mind that our Agency strategy is in our view much more duration controlled than the strategies you will typically see. In a quarter when 10-year yields spiked up 50 basis points to 3% only to dive back down 40 basis points to 2.6%, the performance of our Agency strategy was actually really solid.

I would like to add a little color about the financing market. Especially for non-Agency MBS. While repo financing has been relatively easy to get for some time now, you probably have heard us complain over time that non-Agency MBS financing spreads really hadn't dropped much since 2010, even though yield spreads on the underlying assets have obviously dropped tremendously since 2010. Well, I can now report that finally there seems to be some healthy competition in the non-Agency repo market, and we are seeing financing spreads come down. I am hopeful that we will be able to show you hard evidence of that in the next few quarters, as we let our higher cost repo roll off, and replace it with some lower cost repo.

Lastly as to our search to acquire a mortgage originator. I just want to report that it is progressing nicely and we have narrowed the field of potential targets, and even made some preliminary offers. We will be as patient as we need to be to find the right fit at the right price. Steve Abreu continues to lead that effort. 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 will 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. Operator?

QUESTIONS AND ANSWERS

Operator

The floor is now open for comments. (Operator Instructions). Our first question comes from the line of Steve DeLaney of JMP Securities.

Steven DeLaney - *JMP Securities - Analyst*

Good morning everyone, and thanks for detailed presentation and the slide deck. I guess where I would like to start is, it is notable that the swing in relative contribution between the second and third quarter caught me a little by surprise just given some of the challenges in the Agency space that some of the traditional mortgage REITs encountered. Your Agency revenue contribution appears to have gone up by $3.7, and the non-Agency down by $2.6 million. I wonder if that is reflective of maybe an ongoing repositioning, or was that just reflecting opportunities that presented themselves where you took advantage of the volatility through active trading? Thanks.

Mark Tecotzky - *Ellington Financial LLC - Co-CIO*

Yes, hey, Steve, it is Mark.

Steven DeLaney - *JMP Securities - Analyst*

Hi, Mark.

Mark Tecotzky - *Ellington Financial LLC - Co-CIO*

I think it was more the latter.

Steven DeLaney - *JMP Securities - Analyst*

Okay.

Mark Tecotzky - *Ellington Financial LLC - Co-CIO*

Over time you forget how volatile things were, but there were some really crazy days in the second quarter. There was that July 5th employment report, the market really moved. And there was a lot of selling out of traditional fixed income money managers. There was obviously selling from REITs. So if you were fortunate enough to be in a position to add assets at times of extreme volatility in the quarter, there were some great opportunities. I think it was just that we came in to the quarter with a lot of our interest rate exposure on the Agency side, hedged with passthroughs. So when there was mortgage underperformance relative to swaps, we were comfortable taking more mortgage basis exposure versus swaps at that time, and that helped. There was also good opportunity in the pool market. Larry mentioned there were some sellers of ARMs that we hadn't seen for a while. We were able to participate in that. I think it was just a combination of those factors.

Steven DeLaney - *JMP Securities - Analyst*

That is helpful. And I can sort of picture in my mind how all of those things played out, with the volatility on July 5th and then again on September 5th. Let me ask a big picture question and then I will drop off and get back in the queue. We have watched, over last two weeks we have seen these earnings reports from residential mortgage REITs primarily. Universally people have either delevered or tightened in their duration, added more swaps and longer swaps. Here is my general question. It is almost like somebody flipped a light switch, and everybody got a memo. I know the 100 basis point rise in rates that we got in May/June can cause people to look in the mirror, and think about where their risk really is. My question is could it be that over the last several months repo dealers on the Agency side, usually just thinking about obvious things like leverage, liquidity, that type of thing. Do you get the sense that there is more company-specific evaluation on the credit side of net duration positions, and more of a stress test type of a mentality by the repo dealers, and could that possibly be driven by the fact the dealers themselves are getting more scrutiny from the New York Fed? I know that is a long-winded question and I apologize. I think you can understand where I am going.

Mark Tecotzky - *Ellington Financial LLC - Co-CIO*

That is an interesting theory. We haven't heard that.

Steven DeLaney - *JMP Securities - Analyst*

It is a conspiracy theory, I agree.

Larry Penn - *Ellington Financial LLC - CEO*

I think that, first of all, I would like to say that I think in terms of extending out on the curve on their hedges, I think the market is probably catching up to sort of our way of looking at the world and hedging. We have always done that.

Steven DeLaney - *JMP Securities - Analyst*

Yes.

Larry Penn - *Ellington Financial LLC - CEO*

I think that part of it is just that when rates were lower, right, there was much more uncertainty if you look at scenarios in terms of where, what the ultimate average life of these Agency MBS were going to be. And I think people were hedging to maybe an expected case which was pretty short, like three years or so. And now that rates are higher when you look at the different scenarios and their probabilities, I think people realize now that most of them involve these assets being quite long. So I think that what people are, the way that people hedge where they are focusing more on the most likely scenarios, are causing them to hedge out farther on the curve, before frankly I think they just had a lot more negative convexity than they have now.

And, of course, rates have come down now, so we might be getting again back to a regime where there is a lot more negative convection. When rates were up around 3%, a lot of these portfolios had lost a lot of their negative convexity. In a way it is simpler to hedge, but also in a way if you hedge in that manner, you are sucking more of the juice out of your spread than when you were when rates were lower and you were willing to knowingly or not accept that negative convexity. I don't know if that makes sense. That is my take on it.

Steven DeLaney - *JMP Securities - Analyst*

It does. I think everybody buys a bond, and they think they know the duration of the bond, and maybe we certainly are seeing the reality that people are finding it necessary to be longer hedged now than they were. So I think it is just a complement to the way you guys have set your hedge book up from the beginning.

Larry Penn - *Ellington Financial LLC - CEO*

And just if I could add one more thing. The fact that we have used this opportunity over the last couple of quarters to buy higher coupon specified pools with call protection, right. That is again not maybe a sector that is so much in favor and it has been beaten down, and we think that we are getting call protection very cheaply. Again, call protection is not something that is in your face right now, so I think it is undervalued, and I think that should rates move lower the extra yield that gives us, and the ability when we are short TBAs, to see our TBAs as shorts as rates rally go up in price slower, and therefore on a hedged basis enable us to make money, while our specified pools those paths are increasing right as rates go down, and the call protection becomes more meaningful. That is the kind of thing that we are looking for. Granted right now in this administrative environment, it is not buying us much necessarily in terms of, as much as it will if rates go down. That is why we are positioning ourselves that way.

Steven DeLaney - *JMP Securities - Analyst*

Thank you for the comments.

Larry Penn - *Ellington Financial LLC - CEO*

Thanks, Steve.

Operator

The next question from the line of Jim Fowler of Harvest Capital.

Jim Fowler - *Harvest Capital - Analyst*

Good morning, and thank you for taking the question. Maybe a bit of a bigger picture question as well. Back when QE3 started and the Fed was purchasing $40 billion of MBS, given the mortgage issuance at that point in time, it was 45% to 55% of total issuance. Now given where refinancing activity has gone to, slowed remarkably, and purchases picking up sluggishly, the continued QE is a much higher percentage. Some have suggested 100% of the issuance if not a little bit less, a little bit more. My question is, what do you think the impact to prices will be when that buyer decides to quit buying as much or in total, given the change in the percentage of buying that they have been doing of the issuance, and how does, what do you think the impact will be? And secondly, how are you prepared for that, and how do you think, what opportunities might present itself when this occurs?

Mark Tecotzky - *Ellington Financial LLC - Co-CIO*

Hi Jim, it is Mark. That is a great question, and obviously it is something that we think about a lot. If you think about what happened in the second quarter and the first half of September of this quarter, that was a pricing structure of the market, where there was underlying assumption that the Fed was going to stop tapering in September. So in response to that you saw very large outflows from fixed income mutual funds, you saw a large reduction in the number of shares outstanding for a lot of the bond ETFs. There was obviously pressure on REIT valuations. You saw a big increase in discount to book of closed end municipal bond funds. To me, it was all symptomatic of a lot of investors thinking that the fixed income strategies were going to have a hard time, and I think that you pushed rates just to the point you kind of had the 10-year note kissing 3% that one day early September, or you pushed portfolios to the point where you saw a lot of deleveraging already occur, so if you look up what happened in Agency REITs, there has been tremendous deleveraging second and third quarter, big outflows from mutual funds, those are obviously one day liquidity.

I think a lot of the deleveraging that needed to take place for the market to reprice itself to a pricing structure not so dependent on Fed activity has already occurred, and you have seen the money managers continually selling Agency holdings, and in effect the Fed is buying them, right, as you mentioned with refi activity lower, the Fed buying activity is close to 100% for a lot of these coupons, of what is being produced. I think when the Fed steps away you will see some weakening of roles, which should be beneficial to specified pool valuations. As I mentioned specialized pool valuations have been very depressed. They were a big source of book value declines for people in the first quarter as well as the second quarter.

So I think that the Fed stepping away will be supportive of specified pool valuations, but it is not clear to me that you are going see the scale of widening that we witnessed in the second and early third quarter occur, because I think that the most levered portfolios already delevered, and I don't see them releveraging aggressively just based on the Fed not tapering in September, right, because I think it very much is on people's radar, that it is more of a question of when as opposed to if with Fed activity.

Jim Fowler - *Harvest Capital - Analyst*

Okay. Great. Thanks Mark. Appreciate it.

Mark Tecotzky - *Ellington Financial LLC - Co-CIO*

You are welcome, Jim.

Operator

(Operator Instructions). Your next question comes from the line of Douglas Harter of Credit Suisse.

Douglas Harter - *Credit Suisse - Analyst*

Thanks. I was wondering if you guys how you would think about sizing to some of the less liquid investments, whether it is NPLs or if you buy an originator as you get into loans, how you are thinking about that?

Larry Penn - *Ellington Financial LLC - CEO*

Yes, I mean I think as you can see we like to in some of the less liquid areas we do like to spread it around, not get too concentrated. We are not there yet. This package that I spoke about on NPLs, it has the advantage, first of all, even though it is less liquid, the duration of the cash flows is still probably under two years. So that has to be factored in as well. We don't mind having I would say a more bar-belled portfolio, where we have got some core illiquid positions that can provide us a lot of yield on a return on equity basis. And have a lot of cash, and have a lot of liquid positions.

That is really frankly the way we would like to be, rather than having a portfolio that is more uniformly let's just say in the middle liquidity range. So I don't want to try to put any targets or limits on it, but I would say that we want to continue to be able to be nimble, and as a result as those illiquid products get bigger, so for example, NPLs would be in that category, and as you mentioned, and this is really down the road, right, when you talk about our originator creating a pipeline of investments for us, that is really looking down the road. But if you look there then yes, if we are retaining the junior most pieces of those securitizations, then absolutely that would be less liquid, and we would have to consider having adequate liquidity away from there, to be able to again to trade around that. So I know that is not that specific, but sort of that is our philosophy is to have this bar-belled approach.

Douglas Harter - *Credit Suisse - Analyst*

That is helpful. Thank you very much.

Operator

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

Larry Penn - *Ellington Financial LLC - CEO*

Thank you Operator. Look, just thanks to everybody for participating on the call today. Happy Holidays, and we look forward to speaking with you all next quarter.

Operator

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