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CORPORATE PARTICIPANTS

Jason Frank *Ellington Financial LLC - Secretary and Corporate Counsel*

Larry Penn *Ellington Financial LLC - CEO*

Lisa Mumford *Ellington Financial LLC - CFO*

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

CONFERENCE CALL PARTICIPANTS

Steve DeLaney *JMP Securities - Analyst*

Stephen Laws *Deutsche Bank - Analyst*

Douglas Harter *Credit Suisse - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Ellington Financial fourth quarter 2013 financial results conference call. (Operator Instructions). It is now my pleasure to turn the floor over to Jason Frank, Secretary. You may begin.

Jason Frank - *Ellington Financial LLC - Secretary and Corporate Counsel*

Before we start I would like to remind everyone that certain statements made during this conference 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 identifiedby words such as believe, think, expect, anticipate, estimate, project, plan, continue, intend, should, would, could, goal, objective, will, may, seek, or other similar expressions or their negative forms or by reference to strategies, plans, or intentions.

As describedunder item 1-A of our annual report on Form 10-K filed on March 15, 2013, forward-looking statements are subject to variety of risks and uncertainties that could cause the Company's actual results to differ from its belief, 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.

Okay. I have with me today on the call 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 now turn the call over to Larry.

Larry Penn - *Ellington Financial LLC - CEO*

Thanks, Jason. Once again, it is our pleasure to speak with our shareholders as we release our fourth quarter results. As always we appreciate your taking the time to participate on the call today especially those of you dealing with the snowstorm. 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 openings the floor to questions.

As a reminder we have posted a fourth 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 four to follow on. I'm going to turn it over to Lisa now.

Lisa Mumford - *Ellington Financial LLC - CFO*

Thank you, Larry, and good morning everyone. On page four of the presentation you can see that for the quarter ended December 31, 2013, we earned $15.1 million or $0.58 per share. On a sequentially quarter over quarter basis net income was up just a bit under 28%, and the increase came from our non-agency strategy. Within our non-agency strategy we had growth income of $20.5 million or $0.78 per share compared to $15.1 million in the third quarter or $0.58 per share. In the fourth quarter our interest income declined from $15.5 million to $14.4 million but that was because we had a lower average holdings over the quarter. Our average holdings in the fourth quarter were $642 million as compared to $715 million in the third quarter.

The portfolio was heavily traded during the quarter and at the end of the year not all the proceeds from the quarter's activity had been fully reinvested. However yields increased in our non-agency strategy quarter over quarter on both our assets purchases as well as on our health portfolio. Underlying projected cash flows have improved meaningfully on non-agency MBS. I mentioned that the portfolio was heavily traded during the quarter. As assets rallied we sold into the rally there by monetizing gains. You can see that realized gains were a significant factor in the quarter that is true not only for the quarter but the entire year as realized gains make up nearly half of our 2013 non-agency profits. The vast majority of our non-agency P&L came from our MBS securities, but the other asset classes we have been active in such as CLOs and discussed commercial mortgage loans were also meaningful contributors.

We bought our first pool of non performing residential loans and European non dollar denominated RMBS late in the year, so they did not contribute materially to the quarters results. Losses from our credit hedges reduced our non-agency results. Of the $11.7 million in net losses on credit hedges for the quarter approximately $8 million was related to our short position on corporate bonds credit indexes. However some of those corporate credit hedge losses have been reversed in January.

In on our agency strategy our growth income was $1.9 million or $0.08 per share in the fourth quarter down from gross income of $3.1 million in the third quarter or $0.12 per share. Our interest income was basically flat quarter over quarter as last quarter we had catch up amortization of approximately $1 million and this quarter that adjustments was negligible. Net realized and unrealized losses on our long holdings of agency RMBS were partially offset by net gains from our interest rate hedges.

Our core expense were 2.7% of average equity in line with our expectations. And our 12-month return on average equity was 13.4% based on full year net income of $78.5 million. Our leverage ratio declined to just from 2 to 1 as of year end from 2.14 to 1 at the end of the September. This declined was based on the timing of reinvestment of proceeds from our fourth quarter sales activity.

In terms of repo financing we continued to find it readily available, and in fact we have found increased interest from both larger and smaller dealers with competitive terms. All in all our rates and haircuts haven't moved much, but as we continue to pay off our higher cost borrowings as they roll of and replace them with lower cost borrowing we expect our borrowing cost to come down a bit.

On Tuesday the Board of Directors declared a fourth quarter dividend of $0.77 per share. After the payment of the fourth quarter dividend, our total dividend for the 2013 year will be $79.5 million again net income of $78.5 million or a 101% pay out ratio. As a result, we are not paying a special dividend for 2013. Based on yesterday's closing price of $24.32 our annualized dividend yield is (Inaudible) 12.7%. I will now turn the presentation over to Mark.

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

Thanks, Lisa. I am on page 11. In contrast of the volatile and rising interest rate environment in the quarter, credit spreads were actually relatively stable and improving. We saw that as an opportunity to reduce our portfolio size little by selling some higher price securities as it had meet our terminal price and spread target. We are not yet six weeks into fed taper, we believe the extraordinary liquidity that the fed has provided in the last year is going to be less extraordinary over the next few quarters.

Our returns were driven by the combination of a high yielding portfolio augmented by active trading to supplement yield with realized and unrealized gain. We turned over approximately 25% of our non-agency portfolio our yields are not as high as they used to be, we believe trading opportunities remains strong. In the quarter we continued our steady and deliberate diversification of sources of return. If you think about what this chart would have looked like two years ago, the focus was much more on subprime RBMS. Now CMBS, CLOs, non performing residential loans, commercial mortgage loans and European MBS are all sources of diversification and potential drivers of future return. Each of these sources of return require its own infrastructure such as models to analyse CLOs and loan diligence in servicing oversight for nonperforming loans.

The managers spent significant focus in 2013 expanding its infrastructure and anticipate of this diversification. Credit access have started the year on a strong note, our January estimated book value was up about 2% over our year end booked value and there was (Inaudible) in corporate credit spread of structured product marched higher. The risk awarded equation is tipped in favor of selling some asset. These sales were of course opportunistic and not forced. We've already seen what we believe are better opportunity to reinvest and we expect that to continue throughout the year as the market deals with less fed support and concerns about emerging market credit.

Let's turn to slide 12. I believe this shows some of the benefits of our diversification. Basic portfolio management tells you that you should diversify uncorrelated sources of returns, if return expectations are similar, that's one reason. On the slide you can see that some of the newer areas we've allocated capital actually have better return expectations. Look at CMBS with a 12% percent yield, CLOs 7.2% yield, and the other bucket with almost an 8% yield. We wouldn't put the entire portfolio in any one these sectors because of (Inaudible) risks and concerned about scalability but taking the combination they are significantly helping the overall return profile of the portfolio. Additional sources of return remain an important feature of the 2014.

Slide 13 hedges, structured products have done well in recent periods, but high yield has done even better. For that reason, we believe that makes sense to hedge some of our trade risks in our portfolio with corporate CDX, so we've increased our corporate hedging. Last year was a great example of the benefits of hedging. In the third quarter, there were a lot of RIETs they had to sell large chunks of their agency assets at the low to the market in order to control their leverage ratio after a separate booked value decline because their rate hedges didn't offer enough booked value protection. Our corporate hedges might not make us money this year, if we have period of credit stress we believe they will protect NAV which can eliminate the need to sell the assets to the bottom of the market. I believe corporate credit risk is priced to rosier scenarios and structured product, so we believe that having some corporate credit hedges is a good relative value proposition for us and so far this year the strategy has worked out as structured product have outperformed high yields.

On the agency portfolio, this is where there was a lot of price volatility in the quarter. We had over a 40 basis points range in 10 years swap rate and over 3 points range in 30 year mortgage prices. In general, agency MBS under performed their interest rate hedges with rates ended at the higher end of the range for the quarter. We have seen some material drop in booked value from some of the agency REITs because of the rate move in mortgage performance. The agency spread was actually possible for us. We tried to manage the spread with very limited duration and that is a big reason why we have controlled earnings volatility, we have found enough trading opportunities in the mortgage basis and relative value trading opportunities we pooled to generate returns in spite of the tough environment. We expect that to continue. Late in the quarter we finally got clarity on the Fed's plan for taping their QE3 purchases. This removes a lot of uncertainty and as a result we saw a lot of mortgage buying towards the end of the quarter, that's contributed to strong mortgage performances at the start of the year. Specified pool picks remained depressed as containers are not on anybody's list of things to worry about. In fact at the end of the year the refi index hit its lowest level since late 2008. We retain our holdings there and we've seen a little life impaired for series rate set drop.

With that I'll turn the call back to Larry.

Larry Penn - *Ellington Financial LLC - CEO*

Thanks Mark. The fourth quarter was another quarter where interest rates were very volatile and rising and once again Ellington Financial was able to generate another quarter of solid profitability. As Lisa mentioned our net income was $0.58 per share for the quarter on a fully mark to market basis. Our net income for the entire 2013 year was $3.28 per share or a 13.4% ROA. It was an excellent year.

Both the non agency and agency strategies generated income over the fourth quarter and over the full year. All though a vast majority of our income was generated by the non agency strategy the fact that we were positive at all for the year on agency RMBS on a fully mark-to-market basis was remarkable. This was the most difficult year in agency RMBS in a very long time. On the non-agency side we think that the legacy RMBS market will continue to be fertile investment ground for us in 2014 for a number of reasons. The first reason we continue to like the legacy RMBS market is the competition from Wall Street banks is declining, as a result of both their lower risk tolerance and the new Dodd-Frank and Basel through regulatory frameworks. So now when a large portfolio hits the market for sale or a large buy program comes into the market the sector moves are much more accentuated than they used to be. Ellington Financial can take advantage by either buying or selling as the case may be. This happened last quarter, with the auction of the $5.1 billion ING portfolio in December. We were very pleased with the bonds we purchased in that auction.

Another reason we continue to like the legacy distressed RMBS market is that we continue to see large discrepancies between market sectors. And our view of expected yields on bonds can still differ materially from other market participants. Importantly, these discrepancies vary over time, so one day we find ourselves buying one sector when others are selling and then later we're selling that same sector when others are buying. Also each legacy distressed RMBS bond evolves over time in a different way. Allow me to briefly digress and list a few ways that legacy distressed RMBS bonds can evolve over time.

First the return profile of the bond can get more leveraged over time, such as when the better loans in a pool prepay, leaving only the worst one, or the return profile can get less leveraged over time, such as when the amount of subordination builds up over time. And of course bonds generally get shorter over time, especially as principals repaid. In legacy distressed RMBS underlying loans get modified over time, changing the cash flows, with interest modification having very different effects from principal modifications. And then of course over time the rating agencies offer will upgrade or downgrade bonds.

So why are the different ways the legacy RMBS bonds evolve over time relevant? Because, when we analyze an investment for Ellington Financial, we're not just focused on the expected yield to maturity on a buy and hold basis, but on total return over a shorter horizon than maturity, over the spectrum of possible outcomes. Sure computing present value and yield over the life of a bond, over a wide variety of scenarios is critical perhaps the most important method of analysis but by accessing the different ways that the bonds might evolve over time, we can feel we make even better portfolio decisions today, taking me into account the relative likelihoods of future tightening and future widening in yields there. Viewed through that lens, even with legacy RMBS yields lower than they've been, we're still finding lots of total return opportunity and lots of discrepancies between sectors. We continue to invest in both the legacy and new issue CMBS market, especially with the surge in new issue CMBS volume. 2013's new issue volume of $86 billion was nearly 80% higher than 2012's volume of $48 billion. We actively managed our CMBS portfolio and we remain particularly excited about the opportunity. In the commercial B-piece market where we've made another commitment late in the fourth quarter that should close during the first quarter of 2014.

You will notice on slide 11 that our other bucket has grown from 8% of our non agency portfolio to 13%, and we expect this percentage to continue to increase. As you may recall on last November's earnings call I spoke about our first investment in the residential non-performing loan space. We purchased that HUD pool in the fourth quarter and we're actively hiring, gearing up for a effort in that sector. We continue to see residential NPLs as a key growth area for us in 2014 and beyond.

Additionally, in the fourth quarter we initiated investments in another important new asset class where we expect growth, European MBS and ADS. We opened an office in London, headed by European MBA specialist Daniel Turner, and are building our team here. We have been watching the European MBA sectors closely for a few years. With European banks finally coming to terms with the new supervisory framework that will take us back this coming fall, we felt that the opportunity is finally rising. We're looking at a variety of European MBS and ADS including residential and commercial, securities and loans. Now in addition to the growth areas of residential NPLs in European MBS, ADS, we are also continuing to increase the size of our distressed commercial mortgage loan portfolio. We've also been looking more closely at MSRs and that's another area of potential growth. With attractive opportunities arising in so many factors, we believe that Ellington Financial' s portfolio will continue to diversify. As that trend continues we believe that it will actually get easier for us to rotate between sectors since each individual sector will represent a smaller slice of the overall portfolio.

I would like now just to give brief update on our search for a mortgage originator. As you know, last May, we hired Steve Abreu, Former President of GMAC Mortgage to lead our efforts in acquiring mortgage origination platform. With Steve's help, we've identified a number of viable candidates for acquisitions. We have had some substantives discussions and negotiations with a number of them. In one case, we progressed fairly far in negotiations but ultimately we couldn't quite bridge the gap. We are continuing to keep in touch with the number of these companies in the hopes of reviving the negotiations and we continue to initiate discussions with other mortgage originators as well. Meanwhile, with mortgage originations volumes way down the mortgage origination industry is really struggling especially the small to medium sized players, it's getting worse not better for them and many originators are seeing their capital basis dwindle.

We believe that Ellington Financial' s is best served by being patient as opposed to entering a marginal deal quickly. As a result recognizing that things may not heat up again for a little while, few months ago we and Steve agreed the most appropriate and advantages arrangement for both parties was for Steve to shift from being a full time employee of Ellington Financial' s to a non exclusive consultant. In this capacity Steve continues to talk to potential target companies from time-to-time about a potential acquisition for us but Steve is also free to explore other opportunities that don't involve us should any such opportunities arise. Should Steve's or our ongoing discussions with potential targets heat up again and lead our acquisition of an originator, our hope would be for Steve to run that originator for us.

I'd like to finish with the brief thought on the outlook for our agency RMBS strategy in 2014. With the Federal Reserve expected to continue to taper and with drayed support from the agency RMBS market throughout 2014 could be a very interesting and fruitful year for our agency strategy. We're always reassessing the mix between TBAs, the swap based instruments on the hedging side. Over the fourth quarter, TBAs went from 33% of our agency hedge 10 year equivalence to 39%. I'd like to remind you that we've shown in the past that we are not afraid to make TBAs the majority of our hedges even the vast majority of our hedges if we believe it's prudent. That ability really makes us unique in this space and it is why we were able to ride out that brutal second quarter last year virtually unscathed in our agency strategy.

This concludes our prepared remarks. Operator.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Your first question is coming from Steve DeLaney of JMP Securities.

Steve DeLaney - *JMP Securities - Analyst*

Thank you. Good morning, everyone. Obviously, you theme this quarter and going into 2014 is diversification and I wanted to ask a question or two about the first residential hold pool, first it looks like you paid about 67% of UPD and this program with HUD, are you able to get like BPOs some indication of what market value is as you're buying these pools and can you estimate what's your price versus market value might be.

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

Sure. Hi, Steve, its Mark. So, yes when you buy from HUD, you do get broker price opinions and then we do our own diligence to verify the accuracy of those ourselves. The price where you buy a loan relative to the value of the underlying real estate has a big geographical component to it. So, in parts of the country where liquidations can occur more quickly than the price relative to the BPO where you buy the loan is higher, in areas where the timelines are longer or you have to sit with the house in a state where you're advancing taxes and insurance longer before you get to the real estate the percentage of property value you pay when you buy is lower. So, we bought in areas that are relatively short timelines and it was about 75% of the value of the underlying real estate.

Steve DeLaney - *JMP Securities - Analyst*

Got it. Okay. And Mark, I know Larry commented about building out a lot of staff and infrastructure within Ellington management. So as you buy these pools do you have the special servicing resolution team within EMG or you're outsourcing that to a special servicer?

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

We have our relationship with the special servicer called [Rushmore] that we think is doing fantastic jobs and then we have a team within Ellington that provides what's called servicing oversights and in these distressed loan strategies the owner of the loans works very closely with the servicer in terms of short sell offers, modification offers where to list real estate if you get to the real estate. You really work closely with them but that process of collecting the payments and interacting with the borrower we think it makes more sense for us to pick the special servicer we think is the best and then have the flexibility to have different packages of different special servicer over time to compared performance.

Steve DeLaney - *JMP Securities - Analyst*

So given that kind of heavy lifting right that it takes to work loan pool versus just bonding a legacy RMBS and obviously the much lower liquidity, could you estimate your seeing what 5% to 6% type of unlevered returns on your legacy RMBS. Could you comment on the range of like what you would expect on these whole loan pools in terms of -- and whether it's unlevered or levered whatever your target ROE would be here?

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

So, you are bringing up a very important point. The way we think about it is sectors where you have the ability to trade, the total return you are going to generate for the shareholders can be far an excess of the yield to maturity and that's the point Larry was making. In the sectors where active trading isn't as easy to achieve, we look generally for higher base case yields to compensate for the fact that the trading gains you don't anticipate them being as significant. So I think a non performing loan pools now are going to be looking for spread somewhere 500 to 600 basis points loss adjusted over the forward curve. I think though it's important for us to grow out the institutional infrastructure and have a presence in these markets because it's possible you can see an acceleration in the pace of sales on some of these nonperforming loan, you can have some price volatility in where the loan package trade over the course of the year and we want to be ready to take advantage of the opportunities.

Steve DeLaney - *JMP Securities - Analyst*

Okay, my last -- thank you for that, Mark. Larry, my last thing is you guys went through 5 or 6 areas of diversification and thanks for the update on the mortgage originator. You didn't specifically address what the RMBS 2.0 market and I guess whether you can even call at market now because of which not going on, but we had a deal last week from JP Morgan that definitely struggled and we heard that a public mortgage REIT actually came in and helped keep that up. Until you're in a position where you have your own conduit or your originator, do you see any opportunity sort of you're doing B-pieces in CMBS? These banks are not holding the sub-bonds and the jumbo securitizations, are you still monitoring and looking at opportunities in that market for the new issue jumbo market?

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

Yes, Steve, our view of the new issued jumbo market has been that, the best execution in the past year or so has been, bank portfolio is buying the underlying loans as opposed to (Inaudible) exit.

Steve DeLaney - *JMP Securities - Analyst*

Yes.

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

And when that's the state of world, I think re-capital isn't as impactful because where the triple A trade under the securitization is relatively not as attractive as where banks are buying just the underlying loan. So mostly the activity in that space has been bank originates bank holding on portfolio and a couple of deals you have seen I think you put is a good way, they struggled, right. I don't think it's been a source of material profitability for people that have been involved in that market have tried to do sort of an originate and securitize model. That can change but that sort of the state of world right now, so it seems to us that the areas where we've been putting our resources for diversification. We have seen a clearer path to returns right now than we've seen in jumbo conduit securitization in retaining subordinate bonds.

Larry Penn - *Ellington Financial LLC - CEO*

I think just to elaborate that, I think the dynamics are a little different than a commercial market where the stock is priced at origination, right, it's basically priced to go into this CMBS 2.0 market into the securitization market. And those deals are for variety of reasons the bank who sponsors these deals really want to get all the tranches sold as soon as possible. So we've had some great opportunities there. Now, I think it's possible and on residential side if somebody gets hung up on a deal absolutely we could participate, that hasn't been an area where we've seen it is worthwhile to do that, yet, but that's definitely possible. But because the residential market is struggling because the price of the banks are willing to portfolio the stuff is still frankly higher than we think make sense with regards to securitization retain and retain that risk by retaining essentially the equity and the lowest rate of tranches. So, I don't see that as been a fruitful area still for awhile.

Steve DeLaney - *JMP Securities - Analyst*

Sorry to take up so much time, but thanks for all the comments and sharing with us kind of your vision of all these new opportunities that are on the plate for 2014. All the best. Thanks.

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

Thanks, Steve.

Operator

(Operator Instructions). Your next question comes from the line of Stephen Laws with Deutsche Bank.

Stephen Laws - *Deutsche Bank - Analyst*

Hi, good morning. The majority of my questions (Inaudible) Steve. I guess maybe just one follow-up and you may have hit it in the remarks with him but with regards to the NPL, what's the ultimate strategy there. Are you more focused on modification and refinance opportunities or are you really more focused on foreclosure path and creating a single family rental portfolio as we've seen some other companies do with NPL strategy. So I guess what's the preferred resolution path as you work through those NPLs.

Larry Penn - *Ellington Financial LLC - CEO*

Yes, so we're not focused on rental, on converting the rental, we are focused on resolution. Now resolution doesn't only have to be foreclosure as Mark said, we've so far focused on the non-judicial states where foreclosure is a quicker path than in a judicial state but short sales is obviously a very important strategy, short pay off, so I think the key for us is to, with our special services obviously to be more be more aggressive, I'll just say or more active really would be more accurate to say. More active in terms of working with the borrowers for a resolution that makes sense for all parties. So if we can do a cash for keys for example that's something where the borrower could benefit and we could benefit. So, we're definitely looking for a quick resolution similar to our efforts in the non-performing commercial space, we value a quick resolution I think over necessarily wringing the last penny out of a loan.

So if that means leaving a little money on the table and paying to borrower a little more to vacate the property, that's something that I think we're, definitely more interested in doing than in like I said just waiting and wringing that last penny out. So we're looking at this as a, one advantage actually that we see of this over some of the securities that we see is the shortness of the investment. So for us this is a less than two year average investment I think. So that also goes into a lot of our thinking that yes the liquidity is worse but it's a shorter investment as well. So to have a chunk of the portfolio in that strategy makes a lot of sense for us.

Stephen Laws - *Deutsche Bank - Analyst*

Great. And then thinking about the opportunity that's available there I think this, accrual purchase was through, from a HUD pool, do you expect to focus primarily on opportunities from HUD NPL sales or do you think Fannie and Freddie will look to sell of NPLs, opportunities from banks. How large of a supply out there do you think there is and how active I guess it's always price dependent but how active or how large of a mix do you see this become in the next couple of years.

Larry Penn - *Ellington Financial LLC - CEO*

So we think it's going to be huge, we think that the banks are for a variety of reasons are going to start selling these things at an accelerated pace, Fannie and Freddie is an interesting question certainly HUD found themselves overwhelmed with real estate so they made the decision, which I think it's the right one that they need to diversify their outlet channels if you will, so they're continuing obviously to foreclosed and sell real estate at the same time earlier in the life cycle they're selling the loans after they've defaulted for a while, so that will continue, I think there's no question there. I think the banks are going to pick up their activities, Fannie and Freddie, who knows.

The other thing that I would mention is that, we're also exploring here, increasing our sourcing capabilities to some of the smaller players in the space that have non performing loans, some of the smaller banks, so that's something that we're exploring here as well because there are smaller banks around the country that are now in a position to start being more aggressive in terms of selling their portfolios of nonperforming loans and we are actively exploring ways to be able to access those portfolios.

Stephen Laws - *Deutsche Bank - Analyst*

Great, thanks for the color there, and sort of switching gears but maybe specific to your portfolio, page 24 looks at the average price of the assets and looking at non agency was about 73% of (Inaudible) first half of the year we have seen that move to about 70 and then now 68 here. Is that a function of investments like these NPL pools, is it more you're selling assets that maybe are less credit risk and (Inaudible). Can you maybe talk about what's going on within that average price of your non-agency of assets.

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

This is Mark. I think that trend is primarily a function of the assets that we have selected to sell, so in general the assets that we think have reached sort of a price or a spread target where they're looking for a total return opportunity is as compelling as some other the sectors in the market, has generally been the higher dollar priced securities.

Larry Penn - *Ellington Financial LLC - CEO*

And the other thing just to add is that, that includes CMBS as well and on the CMBS side, we've been active participants in the lower and lowest rate even and unrated tranches of CMBS securitization so as that portfolio -- if you look at page 11 you can see the breakdown of the prices and you can see there if you compare that to earlier in the year especially that bucket has increased and that's one of the lower priced buckets.

Stephen Laws - *Deutsche Bank - Analyst*

Great. I think that started in the second half. Great, thanks a lot for the detail and I appreciate the time.

Larry Penn - *Ellington Financial LLC - CEO*

Thanks, Stephen.

Operator

Our next question is coming from the line of the Douglas Harter of Credit Suisse.

Douglas Harter - *Credit Suisse - Analyst*

Thanks. I was wondering if you could talk little bit more about the European opportunity is that something that -- I guess how liquid are those markets is that something that you would require the higher yield to compensate for or do you see trading opportunities there as well.

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

Hi Doug, it is Mark. That's a good question. On the security side those markets have are fairly liquid. They are not as big there is not as much as volume going through them and there is not as many (Inaudible) trading but there is many fewer players, right, and less capital lined up take advantage of the opportunities but no we have -- there are trading opportunities there. So, there we look at the total return being a combination of not only the expected deal on the asset including losses but also potential trading gains.

So I think it's a good way for us to use our skill set use our analytic framework to analyze assets that are in many ways very similar to U.S. assets but have some structural nuance and little bit differences that makes it not completely correlated to what we're already trading but it's another good source of returning. And as Larry mentioned we hired Daniel Turner to head of our London office, I think he was a very good acquisition for us.

Larry Penn - *Ellington Financial LLC - CEO*

Yes. And just to add one more thing the whole effort I would say we view it not only as the fact that we're making good investments right now and there are trading opportunities but it also represents I think a very valuable option for Ellington Financial because Europe, no secrets it's a lot more fragile, the banks are in a lot worse shape, they may have to disclose assets and we believe that they're going to continue to increase the pace of (Inaudible) as they have as last year progressed.

So, for us it's really an option on what could happen and if something big happens over there and there could be a very big relative value difference between the opportunities there and the opportunities here. So, we wanted to get this effort started, get our analytics beefed up and applying them to these different products so we're ready to increase our allocations substantially should something like that happen.

Douglas Harter - *Credit Suisse - Analyst*

And just to help me frame it, what would you say that the return differential is today between Europe and U.S.?

Larry Penn - *Ellington Financial LLC - CEO*

I think its similar, I think that we're not going to put as much capital in the European opportunity right now, so maybe for that reason maybe it could be marginally higher, but I think it's very similar.

Douglas Harter - *Credit Suisse - Analyst*

Got it. Thank you.

Operator

There is no further questions at this time. Ladies and gentlemen, this concludes Ellington Financial fourth quarter 2013 financial results conference call. Please disconnect your lines and have a wonderful day.