Ellington Financial

Ellington Financial Inc. (NYSE:EFC)

September 2020

Important Notice

Ellington Financial

Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. 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 their negative forms, or by references to strategy, plans, or intentions. Examples of forward-looking statements in this presentation include statements regarding our portfolio growth and composition, our ability to obtain financing, our expected dividend payment schedule, our potential share repurchases, our ability to shift capital across different asset classes, our ability to hedge, and our ability to maintain our earnings, among others.

The Company's results can fluctuate from month to month and from quarter to quarter depending on a variety of factors, some of which are beyond the Company's control and/or are difficult to predict, including, without limitation, changes in interest rates and the market value of the Company's securities, changes in mortgage default rates and prepayment rates, the Company's ability to borrow to finance its assets, changes in government regulations affecting the Company's business, the Company's ability to maintain its exclusion from registration under the Investment Company Act of 1940, the Company’s ability to qualify and maintain its qualification as a real estate investment trust, or “REIT,” and other changes in market conditions and economic trends, including changes resulting from the economic effects related to the novel coronavirus (COVID-19) pandemic, and associated responses to the pandemic. Furthermore, forward-looking statements are subject to risks and uncertainties, including, among other things, those described under Item 1A of our Annual Report on Form 10-K filed on March 13, 2020, and under Part II, Item 1A of the Company’s Quarterly Report on Form 10-Q, as amended, for the three-month period ended March 31, 2020 which can be accessed through the Company’s website at www.ellingtonfinancial.com or at the SEC’s website (www.sec.gov). 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, including reports on Form 10-Q, 10-K and 8-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Modeling

Some statements in this presentation may be derived from proprietary models developed by Ellington Management Group, L.L.C. (“Ellington”). Some examples provided may be based upon the hypothetical performance of such models. Models, however, are inherently imperfect and subject to a number of risks, including that the underlying data used by the models is incorrect, inaccurate, or incomplete, or that the models rely upon assumptions that may prove to be incorrect. The utility of model-based information is highly limited. The information is designed to illustrate Ellington’s current view and expectations and is based on a number of assumptions and limitations, including those specified herein. Certain models make use of discretionary settings or parameters which can have a material effect on the output of the model. Ellington exercises discretion as to which settings or parameters to use in different situations, including using different settings or parameters to model different securities. Actual results and events may differ materially from those described by such models.

Example Analyses

The example analyses included herein are for illustrative purposes only and are intended to illustrate Ellington’s analytic approach. They are not and should not be considered a recommendation to purchase or sell any security or a projection of the Company’s future results or performance. The example analyses are only as of the date specified and do not reflect changes since that time.

Projected Yields and Spreads

Projected yields and spreads discussed herein are based upon Ellington models and rely on a number of assumptions, including as to prepayment, default and interest rates and changes in home prices. Such models are inherently imperfect and there is no assurance that any particular investment will perform as predicted by the models, or that any such investment will be profitable. Projected yields are presented for the purposes of (i) providing insight into the strategy’s objectives, (ii) detailing anticipated risk and reward characteristics in order to facilitate comparisons with other investments, (iii) illustrating Ellington’s current views and expectations, and (iv) aiding future evaluations of performance. They are not a guarantee of future performance. They are based upon assumptions regarding current and future events and conditions, which may not prove to be accurate. There can be no assurance that the projected yields will be achieved. Investments involve risk of loss.

Financial Information

All financial information included in this presentation is as of June 30, 2020 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

Ellington Financial (NYSE:EFC)[1]

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Diversified & Hedged Portfolio	■ Mortgage REIT with diversified investment portfolio across residential mortgage, commercial mortgage, consumer loan, and corporate loan sectors ○ Ability to shift capital allocation across asset classes as credit and liquidity trends evolve ○ Proprietary portfolio of high-yielding, short-duration loans ○ Capital allocation: 78% credit, 16% agency, 6% undeployed[2] ■ Dynamic interest-rate and credit hedging designed to reduce volatility of book value and earnings ■ Total equity of $838mm
Stable Performance	■ Lowest standard deviation of quarterly economic returns among peer group since Q1 2011[3] ○ Total return of 8.4% annualized[4] inception-to-date ■ Core Earnings has exceeded dividends paid every quarter as a REIT ■ Estimated book value per common share is reported monthly; latest is $16.13 as of 8/31/2020 ■ Dividend yield of 8.6% based on the 9/21/2020 closing price of $12.49
Below Sector - Average Leverage	■ Overall debt-to-equity ratio: 2.7x[5], adjusted for unsettled purchases and sales ■ Recourse debt-to-equity ratio: 1.5x[6], adjusted for unsettled purchases and sales ■ Diversified sources of financing include long term non mark-to-market financing facilities and securitizations ■ “A” rating on senior unsecured notes, and “BBB+” rating on preferred equity
Strong Alignment of Interests	■ Management and directors own approximately 8% of EFC[7]
Market Volatility Related to the COVID-19 Pandemic	▪ Our risk and liquidity management enabled us to avoid distressed asset sales during the market turmoil of March and early April, and so we were well positioned to benefit from the rebound in many credit-sensitive fixed income sectors that occurred in the second quarter ▪ During March and April, we strategically reduced leverage and enhanced liquidity through orderly sales of Agency assets ▪ In May and June, with the markets stabilized, we fully resumed investment activity in our credit and Agency portfolios

Experienced External Manager – Ellington Management Group

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Ellington Profile

As of 6/30/2020

Founded:	1994
Employees:	>150
Investment Professionals:	61
Global offices:	3

$10.6
Billion in assets under management as of 6/30/2020[1]

14
Employee-partners own the firm[2]

22
Years of average industry experience of senior portfolio managers

8%
Management's ownership of EFC, representing strong alignment[3]

Ellington and its Affiliated Management Companies

- Our external manager Ellington Financial Management LLC is part of the Ellington family of SEC-registered investment advisors[4]. Ellington Management Group and its affiliates manage Ellington Financial Inc. (EFC), Ellington Residential Mortgage REIT (EARN), multi-investor hedge funds, separately managed accounts, and opportunistic private funds
- Time-tested infrastructure and proprietary resources in trading, research, risk management, and operational support
- Founding partners each have advanced academic training in mathematics and engineering, including among them several Ph.D.'s and Master's degrees

Industry-Leading Research & Trading Expertise

- Sophisticated proprietary models for prepayment and credit analysis
- Approximately 24% of employees dedicated to research and technology
- Structured credit trading experience and analytical skills developed since the firm's founding 25 years ago
- Ellington's portfolio managers are among the most experienced in the MBS sector and the firm's analytics have been developed over its 25-year history

Portfolio Summary as of June 30, 2020

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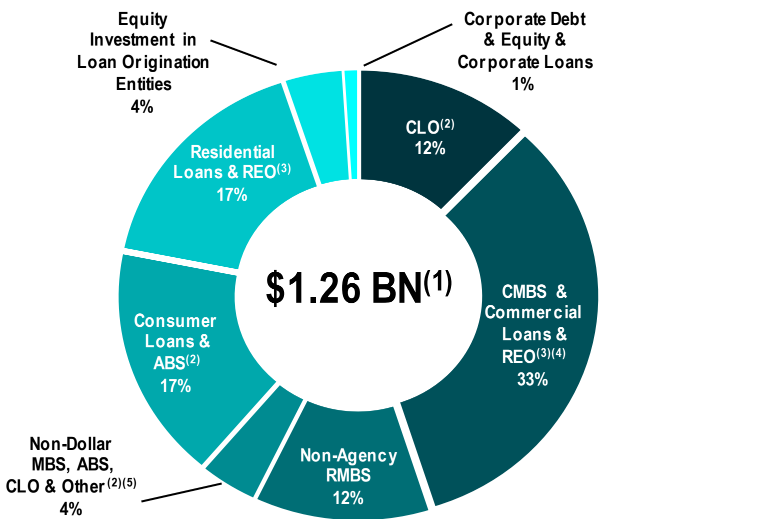
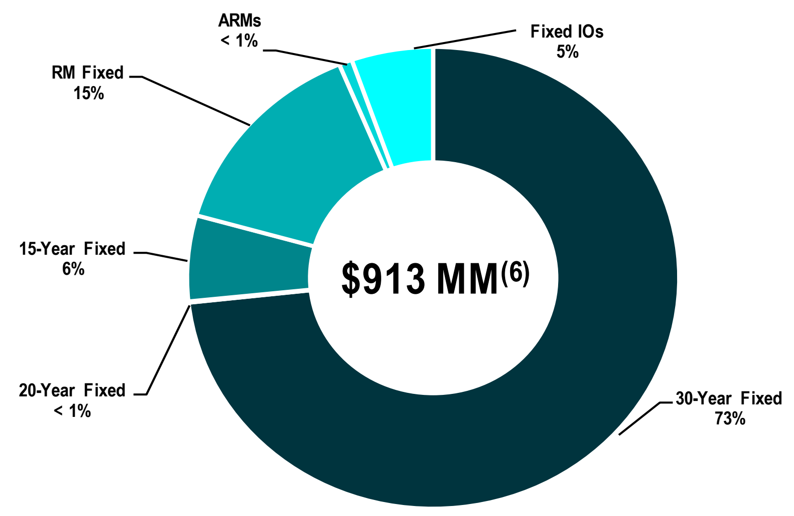
Diversified portfolio designed to generate high-quality earnings across market cycles

Credit Portfolio[1]



Agency RMBS Portfolio



Portfolio Summary – Detail as of June 30, 2020[1]

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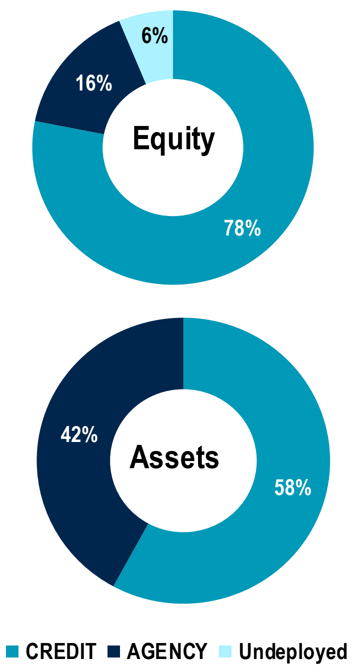
Proprietary portfolio of high-yielding, short-duration loans, and opportunistic securities

Strategy	Allocated Equity		Fair Value ($ in $1,000s)	Average Price (%)[2][6]	WAVG Life[4][6]	WAVG Mkt Yield[5][6]
CREDIT						
CMBS and Commercial Mortgage Loans and REO[8][9]		$	415,079	77.0	2.5	10.2%
Consumer Loans and ABS			216,289	-[3]	0.9	11.6%
Residential Mortgage Loans and REO[7][8]			211,473	91.3	2.4	9.9%
CLO[10]			156,158	72.2	4.1	11.1%
Non-Agency RMBS			154,928	70.5	5.2	6.2%
Non-Dollar MBS, ABS, CLO and Other[10][11]			49,726	68.2	5.5	7.5%
Investments in Loan Origination Entities			44,277	N/A	N/A	N/A
Corporate Debt and Equity and Corporate Loans			9,237	39.0	2.1	19.2%
Total - Credit	**78%**	**$**	**1,257,167**	**79.4**	**2.8**	**10.0%**
AGENCY						
Fixed-Rate Specified Pools		$	724,756	108.9	3.8	1.4%
Reverse Mortgage Pools			131,535	110.5	5.9	1.3%
IOs			49,007	N/A	3.9	8.8%
Floating-Rate Specified Pools			7,899	104.2	2.9	1.4%
Total - Agency	**16%**	**$**	**913,197**	**109.1**	**4.1**	**1.8%**
Undeployed	**6%**					

Equity and Asset Allocation by Strategy



Debt-to-Equity Ratio by Strategy and Overall:

Credit:	**2.2x[12]**	
Agency:	**6.5x[12]**	
Overall:	**2.7x[13]**	***2.7x, net of unsettled purchases/sales***
Overall Recourse:	**1.5x[14]**	***1.5x, net of unsettled purchases/sales***

Diversified Credit Portfolio as of June 30, 2020

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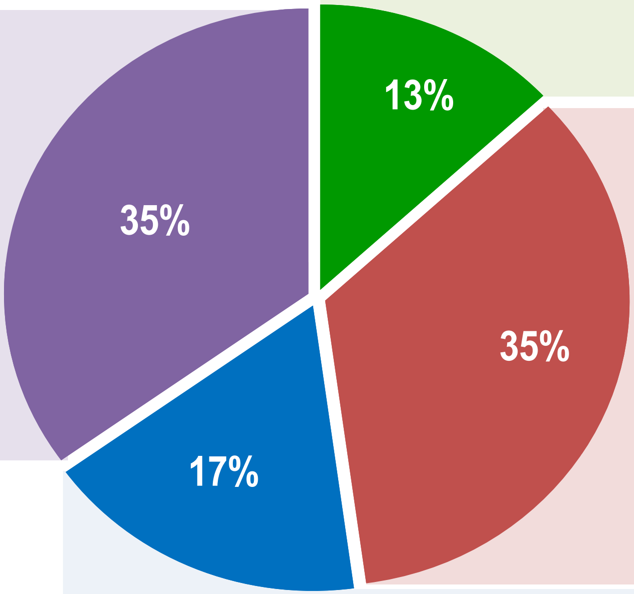
Flexibility to allocate capital to best relative value as market conditions change



Residential Mortgages
- Non-QM Loans
- Residential Transition Loans
- NPL / RPL
- Non-Agency / Non-Conforming
- Reverse Mortgages
- REO

Other

Commercial Mortgages
- NPLs
- Bridge Loans
- CMBS B-Pieces & Credit Bonds
- REO

Consumer Loans
- Installment Loans
- Auto Loans
- ABS

Note: Percentages shown reflect share of total fair market value of credit portfolio[(1)(2)]

Small Balance Commercial Mortgage Loan Portfolio – Detail(1)(2)

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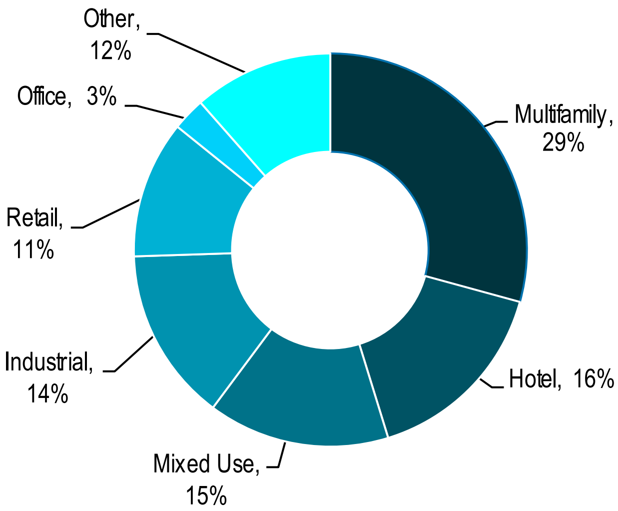
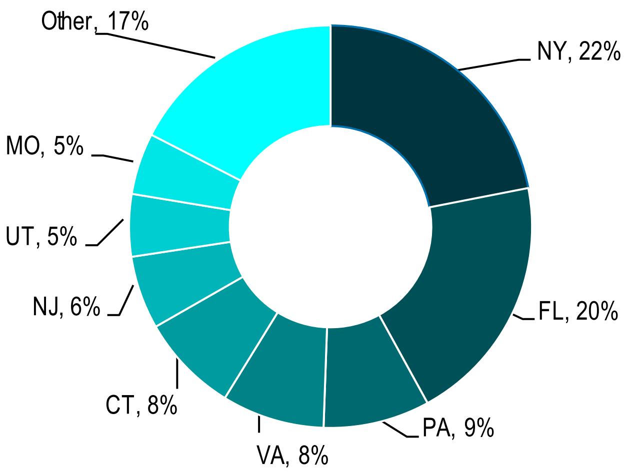
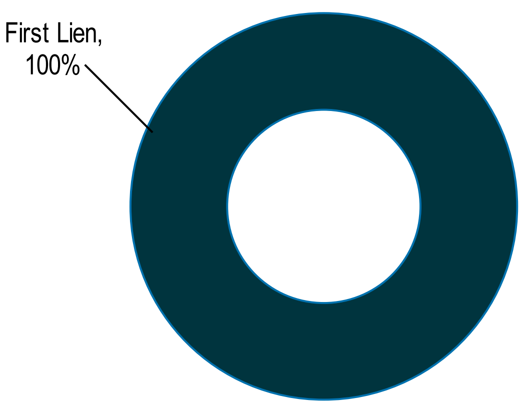
Property Type



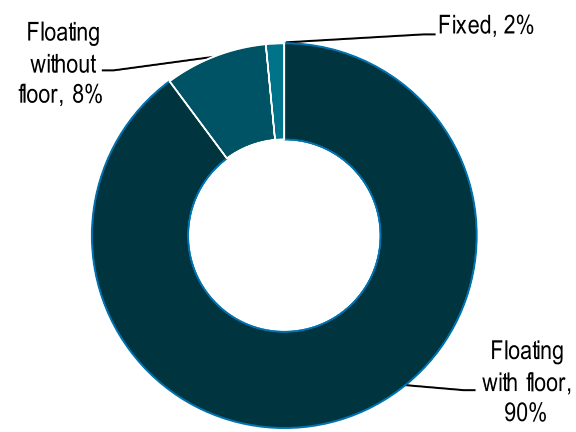
Geography



Seniority



Interest Rate Type



Credit Hedging Portfolio(1)(2)

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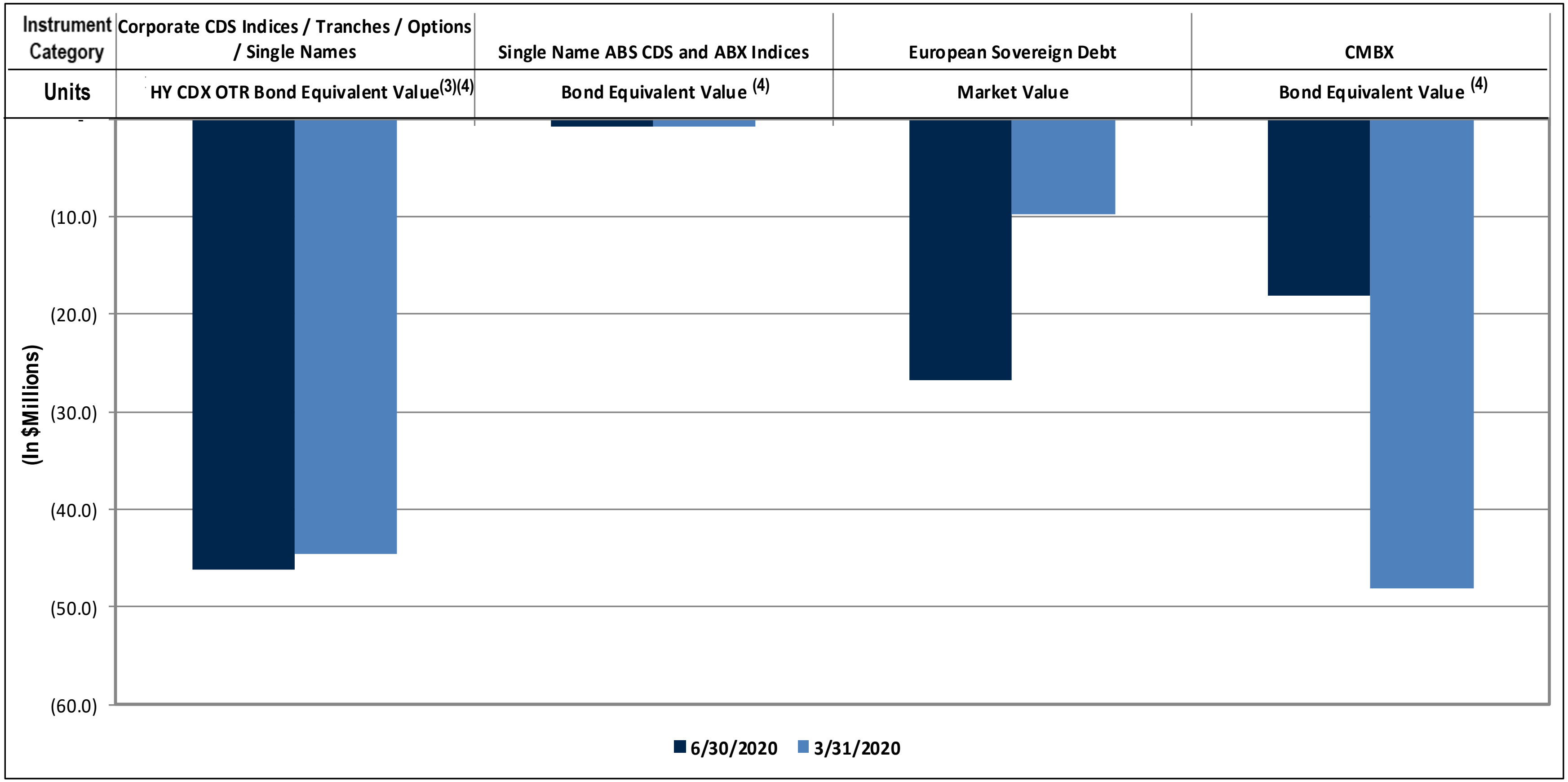
Dynamic credit hedging strategy designed to reduce book value volatility



Agency Interest Rate Hedging Portfolio

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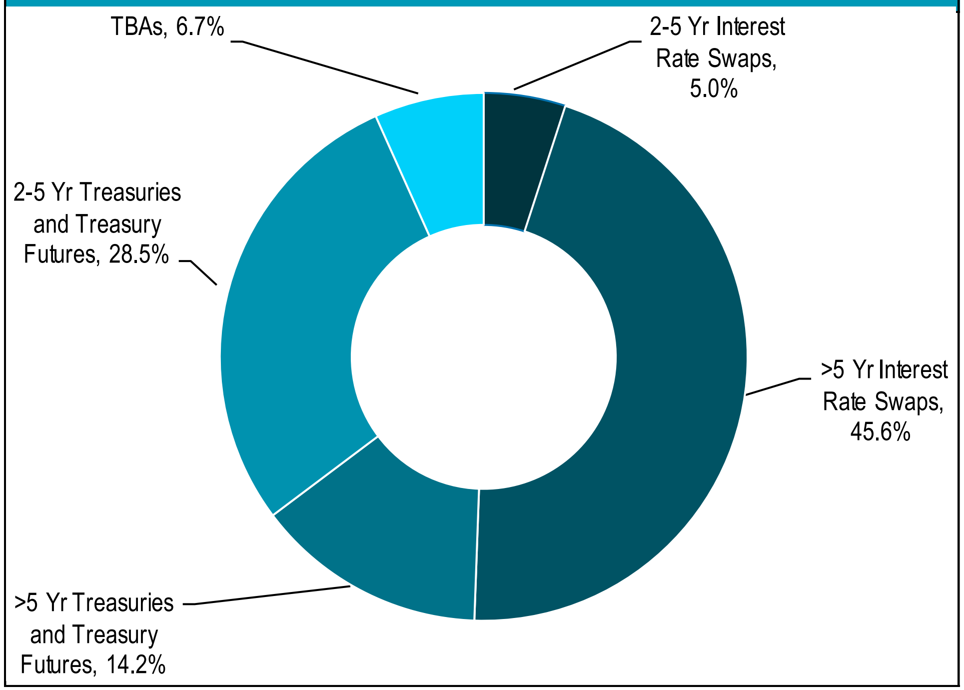
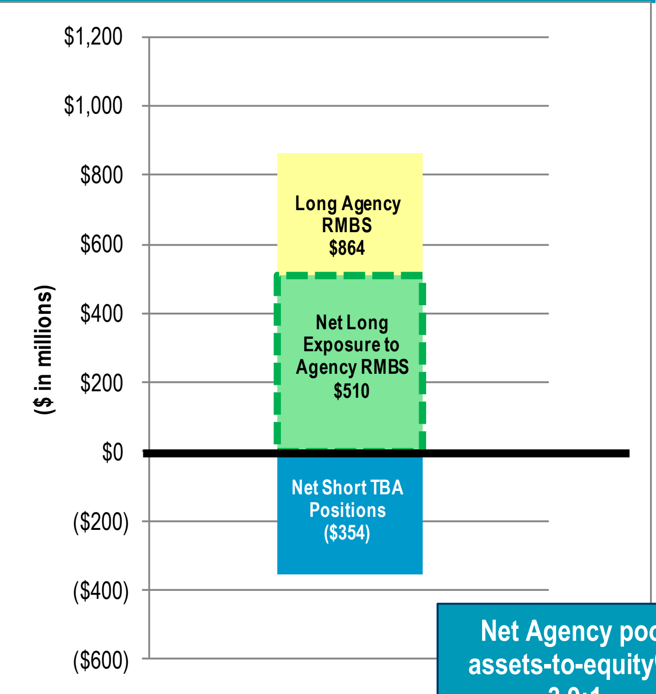
We hedge along the entire yield curve and with TBA short positions to preserve book value

As of 6/30/2020
Short $193.7MM 10-yr equivalents[1]



As of 6/30/2020



Net Agency pool assets-to-equity[2]: 3.9:1

Stable Economic Return

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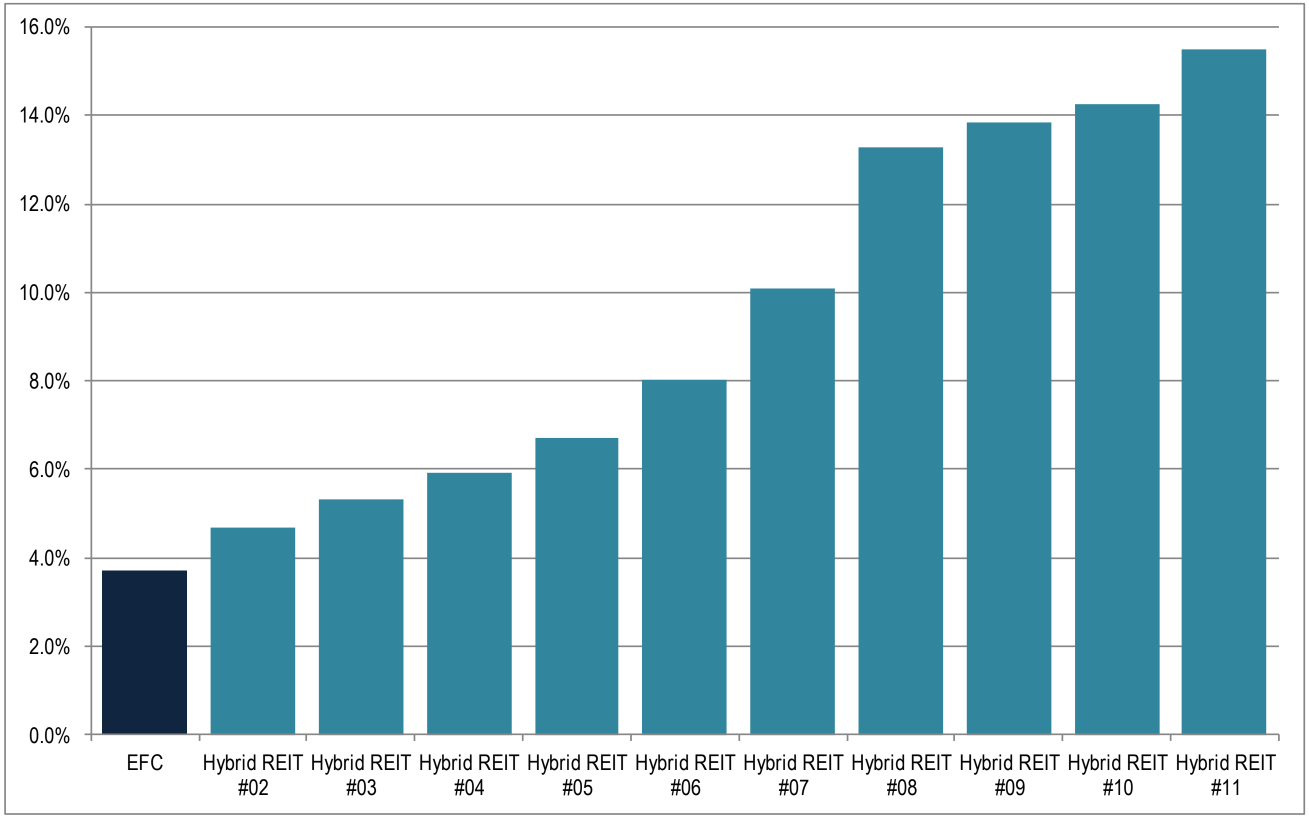
EFC's economic returns are significantly more consistent than peer group

Standard Deviation of Quarterly Economic Returns of Hybrid REITs
Q1-2011 – Q2-2020(1)(2)



Standard Deviation of Quarterly Economic Returns of Hybrid REITs Q1-2011 – Q2-2020

Company	Standard Deviation
EFC	3.7%
Hybrid REIT #02	4.7%
Hybrid REIT #03	5.3%
Hybrid REIT #04	5.9%
Hybrid REIT #05	6.7%
Hybrid REIT #06	8.0%
Hybrid REIT #07	10.1%
Hybrid REIT #08	13.3%
Hybrid REIT #09	13.9%
Hybrid REIT #10	14.3%
Hybrid REIT #11	15.5%

Interest Rate Sensitivity Analysis[1]

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EFC's short duration returns principal quickly and reduces book value volatility

($ in thousands)	Estimated Change in Fair Value					
	50 Basis Point Decline in Interest Rates			50 Basis Point Increase in Interest Rates		
		Δ Fair Value	% of Total Equity		Δ Fair Value	% of Total Equity
Agency RMBS - ARM Pools	$	689	0.08%	$	(401)	-0.05%
Agency RMBS - Fixed Pools and IOs		7,660	0.91%		(8,649)	-1.03%
TBAs		(917)	-0.11%		130	0.02%
Non-Agency RMBS, CMBS, Other ABS, and Mortgage Loans		5,617	0.67%		(4,893)	-0.58%
Interest Rate Swaps		(4,071)	-0.49%		3,830	0.46%
U.S. Treasury Securities		(199)	-0.02%		190	0.02%
Eurodollar and Treasury Futures		(3,782)	-0.44%		3,717	0.44%
Mortgage-Related Derivatives		-	-		1	-
Corporate Securities and Derivatives on Corporate Securities		(5)	0.00%		6	0.00%
Repurchase Agreements, Reverse Repurchase Agreements, and Senior Notes Outstanding		(1,085)	-0.13%		2,012	0.24%
Total	**$**	**3,907**	**0.47%**	**$**	**(4,057)**	**-0.48%**
Less: Estimated Change in Fair Value attributable to Preferred Stock		($1,563)			$1,741	
Estimated Change in Fair Value attributable to Common Stock	**$**	**2,344**		**$**	**(2,316)**	
As % of Common Equity		**0.32%**			**-0.32%**	

Gross Profit and Loss[1]

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Resilient profit generation through market cycles

($ In thousands)	Six-Month Period Ended June 30		Years Ended											
	2020		2019		2018		2017		2016		2015		2014	
Long: Credit	$ (79,233)	-10.6%	$ 73,919	11.6%	$ 61,201	10.0%	$ 61,136	9.6%	$ 36,203	5.3%	$ 46,892	6.1%	$ 77,636	11.4%
Credit Hedge and Other	14,018	1.9%	(11,237)	-1.8%	8,020	1.3%	(11,997)	-1.9%	(40,548)	-5.9%	10,671	1.4%	(1,197)	-0.2%
Interest Rate Hedge: Credit	(7,936)	-1.1%	(1,345)	-0.2%	115	0.0%	(851)	-0.1%	(371)	-0.1%	(4,899)	-0.6%	(9,479)	-1.4%
Long: Agency	37,035	5.0%	48,175	7.5%	(5,979)	-1.0%	10,246	1.6%	17,166	2.5%	23,629	3.1%	61,126	9.0%
Interest Rate Hedge and Other: Agency	(38,221)	-5.1%	(25,309)	-4.0%	3,144	0.5%	(5,218)	-0.8%	(8,226)	-1.2%	(17,166)	-2.2%	(47,634)	-7.0%
Gross Profit (Loss)	**$ (74,337)**	**-9.9%**	**$ 84,203**	**13.2%**	**$ 66,501**	**10.9%**	**$ 53,316**	**8.4%**	**$ 4,224**	**0.6%**	**$ 59,127**	**7.7%**	**$ 80,452**	**11.8%**

($ In thousands)	Years Ended											
	2013		2012		2011		2010		2009		2008	
Long: Credit	$ 109,536	18.5%	$ 129,830	30.0%	$ 1,505	0.4%	$ 70,840	21.9%	$101,748	36.3%	$ (64,565)	-26.2%
Credit Hedge and Other	(19,286)	-3.3%	(14,642)	-3.4%	19,895	5.2%	(7,958)	-2.5%	10,133	3.6%	78,373	31.8%
Interest Rate Hedge: Credit	8,674	1.5%	(3,851)	-0.9%	(8,171)	-2.1%	(12,150)	-3.8%	(1,407)	-0.5%	(3,446)	-1.4%
Long: Agency	(14,044)	-2.4%	37,701	8.7%	63,558	16.5%	21,552	6.7%	22,171	7.9%	4,763	1.9%
Interest Rate Hedge and Other: Agency	19,110	3.2%	(20,040)	-4.6%	(54,173)	-14.0%	(14,524)	-4.5%	(8,351)	-3.0%	(6,414)	-2.6%
Gross Profit (Loss)	**$ 103,990**	**17.6%**	**$ 128,998**	**29.8%**	**$ 22,614**	**5.9%**	**$ 57,760**	**17.8%**	**$124,294**	**44.4%**	**$ 8,711**	**3.5%**

Taper Tantrum

Credit Crisis

Note: Percentages of average equity during period

Total Return Since Inception

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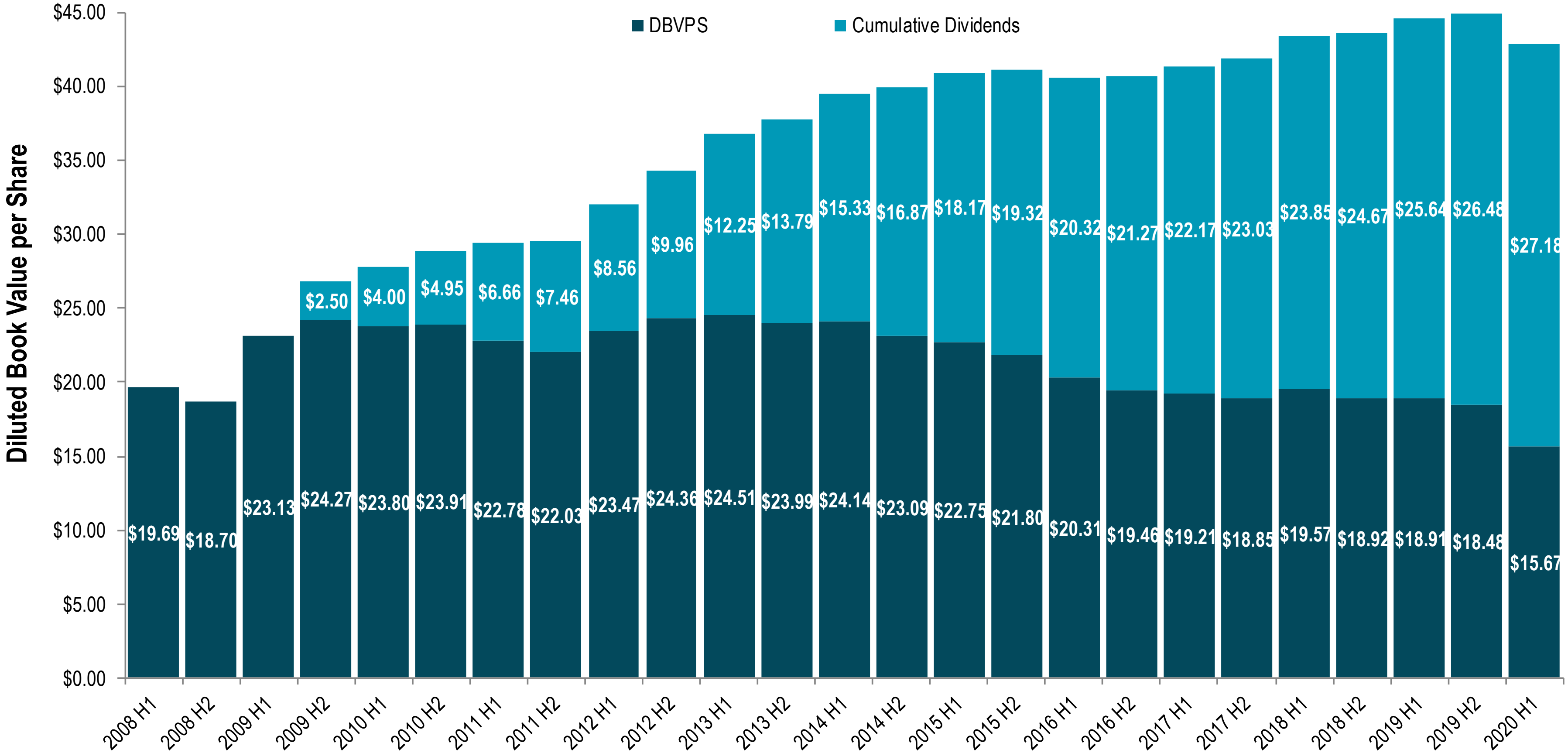
EFC has successfully preserved book value through market cycles, while producing strong results for investors

- **EFC life-to-date diluted net asset value-based total return from inception in August 2007 through Q2 2020 is approximately 184%, or 8.4% annualized[(1)]**



Commitment to ESG

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Ellington is committed to corporate responsibility. We recognize the importance of environmental, social and governance ("ESG") factors, and believe that the implementation of ESG policies will benefit our employees, support long-term shareholder performance, and make a positive impact on the environment and society as a whole.

Environmental

- Our office is conveniently located near mass transportation.
- We provide financial support and incentives to our employees who use public transit.
- To reduce energy usage, we use Energy Star® certified desktops, monitors and printers; and utilize motion sensor lighting and cooling to reduce energy usage in non-peak hours.
- To reduce waste and promote a cleaner environment, we use green cleaning supplies and kitchen products; recycle electronics, ink cartridges, and packaging; provide recycling containers to employees; and use water coolers to reduce waste.

Social

- We are a provider of capital to the U.S. housing market, facilitating home ownership and stability within communities. Our portfolio includes non-QM loans, many of which are made to creditworthy borrowers who cannot provide traditional documentation for income, such as borrowers who are self-employed.
- Ellington and senior members of management sponsor numerous charitable causes. We also support employee charitable contributions with matching gift programs.
- Our employees have access to robust health and wellness programs. Ellington also supports various events that support health and wellness.
- We provide opportunities for personal growth with training and education support, including reimbursement for continuing education. We also provide mentorship programs, and internship opportunities.
- We are committed to enhancing gender, racial, and ethnic diversity throughout our organization.
- We are in compliance with applicable employment codes and guidelines, including ADA, Equal Opportunity Employment, Non-Discrimination, Anti-Harassment and Non-Retaliation codes.

Governance

- Our Manager has a Responsible Investment policy which requires portfolio managers for applicable strategies to certify periodically that they have considered relevant ESG factors.
- We operate under a Code of Business Conduct and Ethics.
- EFC has a separate independent Chairman, and the majority of Board members are independent.
- We hold annual elections of Directors.
- We are committed to significant disclosure and transparency, including an established monthly book value disclosure and dividend policy.
- We foster regular employee engagement, and have an established Whistleblower policy.
- Robust process for shareholder engagement.
- Strong alignment through 8% co-investment[(1)]

Investment Highlights of EFC

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- **Diversified** investment portfolio across residential mortgage, commercial mortgage, consumer loan, and corporate loan sectors
    - **Diverse** range of strategies designed to generate a high-quality earnings stream
    - **Ability** to shift capital allocation across asset classes as credit and liquidity trends evolve[(1)]
    - **Flexibility** to capitalize on investment opportunities that emerge during times of volatility
- **Proprietary** portfolio of high-yielding, short-duration loans
- **Dynamic** interest-rate and credit hedging designed to reduce volatility of book value and earnings
- **Supplement** earnings with book value accretion via share repurchases when stock price is deeply discounted
- **Diversified** sources of financing, including long term non mark-to-market financing facilities and securitizations
- **Strong** alignment with 8% co-investment[(2)]

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Supplemental Slides

Summary of Borrowings

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($ in thousands)

Collateral Type	As of 6/30/2020 Outstanding Borrowings	As of 6/30/2020 Weighted Average Borrowing Rate	Three-Month Period Ended 6/30/2020 Average Borrowings	Three-Month Period Ended 6/30/2020 Average Cost of Funds
Credit[1]	$1,341,712	3.12%	$1,377,059	3.23%
Agency RMBS	$851,614	0.40%	$907,444	1.02%
Subtotal	**$2,193,326**	**2.06%**	**$2,284,503**	**2.35%**
U.S. Treasury Securities	-	-	$37	0.00%
Subtotal	**$2,193,326**	**2.06%**	**$2,284,540**	**2.35%**
Senior Notes, at par	$86,000	5.80%	$86,000	5.80%
Total	**$2,279,326**	**2.20%**	**$2,370,540**	**2.48%**

Recourse and Non-Recourse Leverage Summary[2] As of 6/30/2020			
Recourse Borrowings	$1,280,014	**Recourse Debt-to-Equity Ratio[3]**	**1.5:1**
Non-Recourse Borrowings	$999,312	*Net of unsettled purchases/sales*	*1.5:1*
Total Borrowings	**$2,279,326**	**Total Debt-to-Equity Ratio[4]**	**2.7:1**
Total Equity	$837,679	*Net of unsettled purchases/sales*	*2.7:1*

Repo Borrowings[1]

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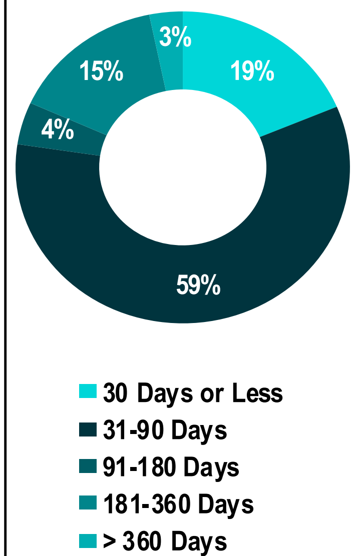
($ in thousands)	Repo Borrowings as of June 30, 2020				
Remaining Days to Maturity	Credit	Agency	U.S. Treasury	Total	% of Total Borrowings
30 Days or Less	$47,042	$194,313	—	$241,355	18.7%
31-90 Days	193,090	567,251	—	760,341	58.8%
91-180 Days	31,994	24,841	—	56,835	4.3%
181-360 Days	129,106	65,209	—	194,315	15.0%
> 360 Days	41,703	—	—	41,703	3.2%
Total Borrowings	$442,935	$851,614	—	$1,294,549	100.0%
Weighted Average Remaining Days to Maturity	**188**	**70**	**—**	**110**	

Borrowings by
Days to Maturity



- **Repo borrowings with 25 counterparties, largest representing approximately 15% of total**
- **Weighted average remaining days to maturity of 110 days**
- **Maturities are staggered to mitigate liquidity risk**
- **We made substantial progress extending and improving our sources of financing and leverage in the second quarter. In addition to completing our non-QM securitization, we also obtained term financing for numerous loan assets that we had previously held unfinanced, and we extended the terms of several of our credit facilities.**

Endnotes

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Slide 3 – Ellington Financial (NYSE:EFC)

(1) Information is as of June 30, 2020, unless otherwise noted.
(2) Equity usage for a strategy is based on an internal calculation that reflects the actual amount of capital posted to counterparties in connection with such strategy's positions (whether in the form of haircut, initial margin, prime brokerage requirements, or otherwise) plus additional capital allocated to support such strategy's positions, net of adjustments for readily financeable assets and securities that may be sold to increase liquidity on short notice.
(3) See endnotes (1) and (2) on slide 11.
(4) See endnote (1) on slide 14.
(5) Overall debt-to-equity ratio is computed by dividing EFC's total debt by EFC's total equity. The debt-to-equity ratio does not account for liabilities other than debt financings. Excludes repo borrowings on U.S. Treasury securities.
(6) Excludes repo borrowings on U.S. Treasury securities and borrowings at certain unconsolidated entities that are recourse to us.
(7) Management and directors' ownership includes common shares, operating partnership units, and LTIP units held by officers and directors of EFC, and partners and affiliates of Ellington (including families and family trusts of the foregoing).

Slide 4 – Experienced External Manager – Ellington Management Group

(1) $10.6 billion in assets under management includes approximately $1.4 billion in Ellington-managed CLOs. For these purposes, the Ellington-managed CLO figure represents the aggregate outstanding balance of CLO notes and market value of CLO equity, excluding any notes and equity held by other Ellington-managed funds and accounts.
(2) Does not include partners formerly employed by Ellington who may have residual capital balances but who no longer have voting rights in the partnership.
(3) See endnote (7) on slide 3.
(4) Registration with the SEC does not imply that the firm or any of its principals or employees possess a particular level of skill or training in the investment advisory or any other business.

Slide 5 – Portfolio Summary as of June 30, 2020

(1) Includes REO at the lower of cost or fair value. Excludes hedges and other derivative positions. For our consolidated non-QM securitization trusts, excludes tranches that were sold to third parties, but that are consolidated for GAAP purposes. Including such tranches, the Company's total long credit portfolio was $1.996 billion as of June 30, 2020.
(2) Includes equity investment in securitization-related vehicles.
(3) REO is not considered a financial instrument and as a result is included at the lower of cost or fair value.
(4) Includes equity investments in unconsolidated entities holding small balance commercial mortgage loans and REO.
(5) Includes an equity investment in an unconsolidated entity holding European RMBS.
(6) Agency long portfolio includes $864.2 million of long Agency securities and $49.0 million of interest only securities as of June 30, 2020.

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Slide 6 – Portfolio Summary – Detail as of June 30, 2020

(1) Excludes hedges and other derivative positions.
(2) Average price excludes interest only, principal only, equity tranches and other similar securities and non-exchange traded corporate equity. All averages in this table are weighted averages using fair value, except for average price which uses current principal balance.
(3) Average price of consumer loans and ABS is proprietary.
(4) Weighted average life assumes "projected" cashflows using Ellington's proprietary models. Excludes interest only, principal only, equity tranches.
(5) Estimated yields at market prices are management's estimates derived from Ellington's proprietary models based on prices and market environment as of June 30, 2020 and include the effects of future estimated losses. The above analysis should not be considered a recommendation to purchase or sell any security or class of securities. Results are based on forward-looking models, which are inherently imperfect, and incorporate various simplifying assumptions. Therefore, the table is for illustrative purposes only and the actual performance of our portfolio may differ from the data presented, and such differences might be significant and adverse.
(6) REO and equity investments in loan origination entities are excluded from total average calculations.
(7) For our consolidated non-QM securitization trusts, excludes tranches that were sold to third parties, but that are consolidated for GAAP purposes.
(8) REO is not considered a financial instrument and as a result is included at the lower of cost or fair value.
(9) Includes equity investments in unconsolidated entities holding small balance commercial mortgage loans and REO.
(10) Includes equity investments in securitization-related vehicles.
(11) Includes an equity investment in an unconsolidated entity holding European RMBS.
(12) Excludes repo borrowings on U.S. Treasury securities and borrowings at certain unconsolidated entities that are recourse to us. In determining the debt-to-equity ratio for an individual strategy, equity usage for such strategy is based on an internal calculation that reflects the actual amount of capital posted to counterparties in connection with such strategy's positions (whether in the form of haircut, initial margin, prime brokerage requirements, or otherwise) plus additional capital allocated to support such strategy's positions, net of adjustments for readily financeable assets and securities that may be sold to increase liquidity on short notice. The Company refers to the excess of its total equity over the total risk capital of its strategies as its "risk capital buffer". If the debt-to-equity ratios for individual strategies were computed solely based on the actual amount of capital posted to counterparties, such ratios would typically be higher. The debt-to-equity ratio does not account for liabilities other than debt financings.
(13) See endnote (5) on slide 3.
(14) Excludes repo borrowings on U.S. Treasury securities and borrowings at certain unconsolidated entities that are recourse to us. Including such borrowings, our debt-to-equity ratio based on total recourse borrowings is 1.6:1 as of June 30, 2020.

Slide 7 – Diversified Credit Portfolio

(1) See endnote (1) on slide 6.
(2) For our consolidated non-QM securitization trusts, only retained tranches are included (i.e., excludes tranches sold to third parties).

Slide 8 – Small Balance Commercial Mortgage Loan Portfolio – Detail

(1) Percentages are of unpaid principal balance as of June 30, 2020.
(2) Includes our allocable portion of certain small-balance commercial loans, based on our ownership percentage, held in entities in which we and certain affiliates of Ellington have equity interests. Our equity investments in such entities are included in Investments in unconsolidated entities, at fair value on the Condensed Consolidated Balance Sheet.

Slide 9 – Credit Hedging Portfolio

(1) The Credit Hedging Portfolio excludes both legs of certain relative value trades which we believe do not affect the overall hedging position of the portfolio. Consequently, the amounts shown here may differ materially (i) from those that would be shown were all positions in the included instruments displayed and (ii) from that presented on the Derivatives Summary shown in the Company's financial statements filed with the Securities and Exchange Commission.

(2) There can be no assurance that instruments in the Credit Hedging Portfolio will be effective portfolio hedges.

(3) Corporate derivatives displayed in HY CDX OTR Equivalents represent the net, on-the-run notional equivalents of Markit CDX North American High Yield Index (the "HY Index") of those derivatives converted to equivalents based on techniques used by the Company for estimating the price relationships between them and the HY Index. These include estimations of the relationships between different credits and even different sectors (such as the US high yield, European high yield, and US investment grade debt markets). The Company's estimations of price relationships between instruments may change over time. Actual price relationships experienced may differ from those previously estimated.

(4) Bond Equivalent Value represents the investment amount of a corresponding position in the reference obligation or index constituents, calculated assuming a price equal to the difference between (i) par and (ii) the tear up price. Corporate CDS Indices, Tranches, Options and Single Names are converted to HY CDX OTR Equivalents prior to being displayed as Bond Equivalent Values.

Slide 10 – Agency Interest Rate Hedging Portfolio

(1) Agency interest rate hedges are shown in normalized units of risk, with each group of positions measured in "10-year equivalents; "10-year equivalents" for a group of positions represent the amount of 10-year U.S. Treasury securities that would be expected to experience a similar change in market value under a standard parallel move in interest rates.

(2) We define our net Agency pool assets-to-equity ratio as the net aggregate market value of our Agency pools of $864 million and our long and short TBA positions of $(354) million, divided by the equity allocated to our Agency strategy of $131 million, as of June 30, 2020. In determining the debt-to-equity ratio for an individual strategy, equity usage for such strategy is based on an internal calculation that reflects the actual amount of capital posted to counterparties in connection with such strategy's positions (whether in the form of haircut, initial margin, prime brokerage requirements, or otherwise) plus additional capital allocated to support such strategy's positions, net of adjustments for readily financeable assets and securities that may be sold to increase liquidity on short notice. The Company refers to the excess of its total equity over the total risk capital of its strategies as its "risk capital buffer". If the debt-to-equity ratios for individual strategies were computed solely based on the actual amount of capital posted to counterparties, such ratios would typically be higher. The debt-to-equity ratio does not account for liabilities other than debt financings.

Slide 11 – Stable Economic Return

(1) Source: Company filings.

(2) Economic return is computed by adding back dividends to ending book value per share, and comparing that amount to book value per share as of the beginning of the quarter.

Slide 12 – Interest Rate Sensitivity Analysis

(1) The table reflects the estimated effects on the value of our portfolio, both overall and by category, of hypothetical, immediate, 50 basis point downward and upward parallel shifts in interest rates, based on the market environment as of June 30, 2020. The preceding analysis does not include sensitivities to changes in interest rates for instruments which we believe that the effect of a change in interest rates is not material to the value of the overall portfolio and/or cannot be accurately estimated. In particular, this analysis excludes certain corporate securities and derivatives on corporate securities, and reflects only sensitivity to U.S. interest rates. Results are based on forward-looking models, which are inherently imperfect, and incorporate various simplifying assumptions. Therefore, the table is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual value of our portfolio that would differ from those presented, and such differences might be significant and adverse.

Slide 13 – Gross Profit and Loss

(1) Gross profit excludes expenses other than interest expense and other investment related expenses. Figures in "%" columns are as a percentage of average equity for the period.

Slide 14 – Total Return Since Inception

(1) Total return is based on $18.61 net diluted book value per common share at inception in August 2007 and is calculated assuming the reinvestment of dividends at diluted book value per common share and assumes all convertible units were converted into common shares at their issuance dates.

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Slide 15 – Commitment to ESG

(1) See endnote (7) on slide 3.

Slide 16 – Investment Highlights of EFC

(1) Subject to qualifying and maintaining our qualification as a REIT.
(2) See endnote (7) on slide 3.

Slide 18 – Summary of Borrowings

(1) Includes Other secured borrowings and Other secured borrowings, at fair value.
(2) All of our non-recourse borrowings are secured by collateral. In the event of default under a non-recourse borrowing, the lender has a claim against the collateral but not any of the Operating Partnership's other assets. In the event of default under a recourse borrowing, the lender's claim is not limited to the collateral (if any).
(3) See endnote (14) on slide 6.
(4) See endnote (5) on slide 3.

Slide 19 – Repo Borrowings

(1) Included in the table, using the original maturity dates, are any repos involving underlying investments we sold prior to June 30, 2020 for settlement following June 30, 2020 even though the company may expect to terminate such repos early. Not included are any repos that we may have entered into prior to June 30, 2020, for which delivery of the borrowed funds is not scheduled until after June 30, 2020. Remaining maturity for a repo is based on the contractual maturity date in effect as of June 30, 2020. Some repos have floating interest rates, which may reset before maturity.

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