ARLINGTON ASSET INVESTMENT

STONEGATE CAPITAL PARTNERS

August 26, 2019

Laura S. Engel, CPA
Laura@stonegateinc.com
214-987-4121

MARKET STATISTICS

Exchange / Symbol:	NYSE: AI
Price:	$5.20
Market Cap ($mm):	$190.6
Shares Outstanding (mm):	36.7
Float (%):	97.9
Volume (3-month avg.):	470,100
52 Week Range:	$5.17-$10.32
Industry:	Financial Services

CONDENSED BALANCE SHEET

($mm, except per share data)

Balance Sheet Date:	6/30/2019
Cash & Cash Equivalent:	$34.7
Cash/Common Share:	$0.95
LT Debt:	$74.2
Equity (Book Value):	$324.3
Equity/Common Share:	$7.80
Tangible Equity/Common Share:	$7.80

CONDENSED INCOME STATEMENTS

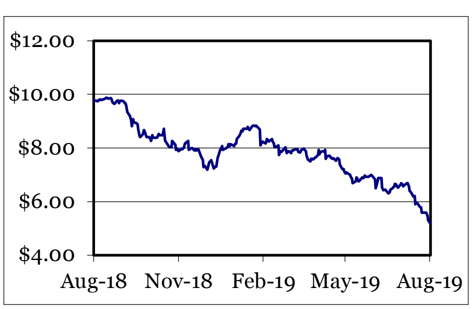
($mm, except per share data)

FY – 12/31	Interest Inc	Net Int. Income	EPS GAAP	EPS Core
FY16	$105.3	$76.1	$(1.79)	$2.75
FY17	$121.3	$69.7	$0.66	$2.26
FY18	$130.9	$46.1	$(3.18)	$2.06
Fy19E	$129.7	$29.3	$(0.07)	$1.02

LARGEST SHAREHOLDERS

BlackRock, Inc.	3,869,300
The Vanguard Group, Inc.	1,984,800
Invesco Capital Management, LLC	1,745,300
American Money Management Corp.	1,403,800
State Street Global Advisors, Inc.	716,900
Miller Value Partners, LLC	591,700
Renaissance Technologies Corp.	560,300
Ellington Management Group, LLC	559,100
Geode Capital Management, LLC	500,700
Teachers Insurance and Annuity Assoc.	488,500

STOCK CHART



COMPANY DESCRIPTION

Arlington Asset Investment Corp. is an investment firm that focuses on acquiring and holding a levered portfolio of residential mortgage-backed securities (RMBS), typically consisting of agency MBS and private-label MBS. The Company acquires residential mortgage backed securities from U.S. government agency or government sponsored enterprises (GSE), such as Federal National Mortgage Association and Federal Home Loan Mortgage. Importantly, agency MBS are guaranteed as to principal and interest by the U.S. government agency or U.S. government sponsored enterprise; whereas, private-label MBS or non-agency MBS and are not backed by a GSE or U.S. government. Currently, the Company's investment capital is allocated to agency MBS. Arlington Asset Investment Corp. is headquartered in Arlington, Virginia, and has elected to be taxed as a REIT for U.S. federal tax purposes for the year ending 12/31/19. Additionally, it is an internally managed company and does not have an external investment advisor.

SUMMARY

Arlington Asset Investment Corp. ("Arlington") is an internally managed investment firm focused on acquiring and holding a levered portfolio of RMBS. Using its long-term investment strategy, coupled with its hedging strategy, the Company is focused on maintaining its net interest income spread return and its consistency over an extended period of time. The Company believes this focus should drive a high return on capital for investors. We note the following for Arlington:

- It has a flexible investment approach to seek highest risk-adjusted returns
- The Company invests in highly liquid assets with substantial interest rate hedges
- AI has diversified repo funding sources to enable its RMBS investment strategy
- Arlington also has access to longer-term funding sources from its equity and preferred ATMs
- As of Q219, its portfolio was substantially hedged at 78%, helping mitigate impacts from rising interest rates
- The Company has elected to operate and be taxed as a REIT for US federal tax purposes for the year ending 12/31/19; as such, distributions will be generally taxable as ordinary income, although a portion of the distributions may be designated as long-term capital gain dividends
- Reported as of 6/30/19, the Company had $14.5M net operating losses, $411.4M net capital losses, and $9.1M ATM carryforwards that should help reduce taxable income and therefore its future REIT distribution requirements
- Its internally managed investment structure provides operating leverage to the Company
- Arlington's internally managed structure also better aligns management's interests as compensation is based on the Company and stock performance rather than capital raising and portfolio growth
- With AI's election for REIT status, its book value will be equivalent to its tangible book value, which was $7.80 per share for both as of 6/30/19; the Company's deferred tax assets and liabilities were eliminated as of year-end.

We employ a comparison analysis framework on page 7 of this report for valuation. Using current comps, along with historical valuation ranges, we believe using a P/TBV multiple range of 0.80x to 1.20x is reasonable. Using this range, we arrive at a valuation range of ~$6.24 to ~$9.36 with a mid-point of ~$7.80 for AI. Also, considering current and 3-year historical trading ranges of AI and comps, we believe using a P /E multiple range of 4.0x to 8.0x is reasonable. Using this range on our FY19 EPS estimate, we arrive at a valuation range of ~$4.09 to ~$8.18 with a mid-point of ~$6.14.

BUSINESS OVERVIEW

Arlington Asset Investment Corp. is an investment firm that focuses on acquiring and holding a levered portfolio of residential mortgage-backed securities, typically consisting of agency MBS and private-label MBS. The Company acquires residential mortgage backed securities from U.S. government agencies or government sponsored enterprises, such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage (Freddie Mac). Importantly, the agency residential MBS are guaranteed as to principal and interest by the U.S. government agency or GSE. Private-label MBS or non-agency MBS are not backed by a GSE or U.S. government. Currently, the Company's investment capital is allocated to agency MBS.

Arlington Asset Investment Corp. uses leverage to increase potential returns to shareholders. The Company funds its investments primarily through short-term financing agreements and enters into various hedging transactions to mitigate interest rate sensitivity of its borrowing costs and the value of the MBS portfolio.

The Company has elected to be taxed as a real estate investment trust commencing with the 2019 tax year. As a REIT, Arlington will be required to distribute 90% of its taxable income annually. The dividends of REITs, which are non-qualified dividends, and are subject to a 33.4% maximum federal effective income tax rate as ordinary income. Arlington can continue to utilize its NOL and NCL carryforwards as well as its AMT credit carryforward to reduce its taxable income and therefore its REIT distribution requirements.

Additionally, Arlington Asset Investment Corp. is an internally managed company and does not have an external investment advisor. The Company is headquartered in Arlington, VA.

Exhibit 1: Arlington Asset Investment Capital Structure

(1) As of July 31, 2019

Source: Company Reports; Stonegate Capital Partners

INVESTMENT STRATEGY

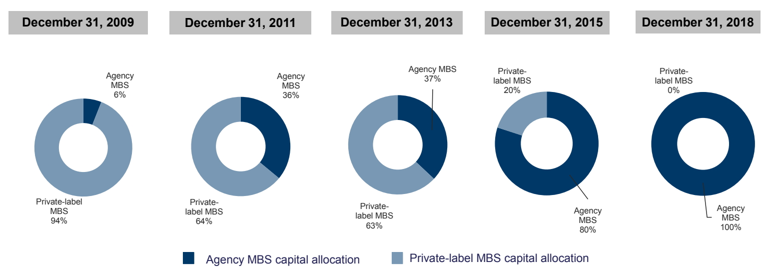
Arlington's investment strategy is focused on obtaining a high risk-adjusted return on capital. The Company starts its process by evaluating the rates of return that can be attained in each asset class and each individual security within an asset class. Next, the Company evaluates the set of opportunities against returns available in other investment alternatives. Subsequently, the Company will attempt to allocate its assets and capital toward what it believes to be the highest risk-adjusted return available. As result of this strategy, the portfolio will have different allocations of capital and leverage in different market environments.

We note that Arlington Asset Investment Corp. may invest in other types of assets such as:

- residential mortgage loans
- mortgage servicing rights
- GSE credit risk transfer securities
- commercial MBS
- asset backed securities
- commercial mortgage loans
- commercial loans
- other real estate related loans and securities
- other structured securities

Currently, the Company believes its RMBS portfolio provides it with the highest relative risk-adjusted return. As a result, the Company has maintained a high allocation of its portfolio toward this sector. Within the RMBS investment portfolio, the Company has also gradually increased its exposure to agency MBS vs. private label MBS, reporting 0% private label as of 12/31/18, which has continued through Q219.

Exhibit 2: Investment Portfolio Historical Changes



Source: Company Reports; Stonegate Capital Partners

Arlington Asset Investment Corp. may purchase MBS securities either in initial offerings or in the secondary market. Importantly, the Company may also use "to-be-announced" (TBA) forward contracts to invest in agency MBS or to hedge investments. A TBA security is a forward contract for the purchase or sale of agency securities at a predetermined price, face amount, issuer, coupon, and stated maturity on an agreed upon future date. However, the specific agency securities to be delivered against the forward contract are not identified until shortly before the settlement date.

FINANCING STRATEGY

As mentioned, the Company uses leverage to finance a portion of its MBS portfolio and to increase potential returns. Arlington typically uses short-term financing, which primarily consist of repurchase agreements or repos. The Company's funding sources are well diversified as it has 15 counterparties with access to 18 total counterparties. Additionally, we note that less than 10% of equity is at risk with any one counterparty.

From time-to-time the Company has, and may continue to use, long-term notes as an additional financing source. Additionally, the Company uses TBA dollar rolls to finance part of its MBS portfolio.

Repurchase Agreements

The Company's repo agreements are typically in the 30 days to 90 days range, but can be as short as one day or as long as a year. Arlington Asset Investment will sell securities to the counterparty in the repo agreement and will receive cash in return. Additionally, the counterparty is obligated to resell the same securities back to Arlington Asset Investment at the end of the repo term. Under the repo agreements, the Company typically pays a floating rate based on LIBOR, plus or minus a fixed spread. All these transactions are reflected on the balance sheet.

TBA Dollar Roll

As mentioned above in the investment strategy section, Arlington invests in TBA forward contracts. TBA forward contracts can settle either by (1) taking physical delivery of an agency MBS security, or (2) by entering into an offsetting position and net settle the paired off position in cash. Historically, the Company has settled its TBA trades by method 2.

Exhibit 3: Illustrative TBA Dollar Roll Example

Hypothethical dollar roll with Freddie Mac, 30-year, 3.5% coupon TBA security:

	Trade Date	Settlement Date	Buy / Sell	Notional	Price	Cash Net Settlement
1	August 17	September 13	Buy	$50,000,000	$103.45	
2	September 11	September 13	Sell	$50,000,000	$103.75	$ 150,000
	September 11	October 12	Buy	$50,000,000	$103.58	
3	October 6	October 12	Sell	$50,000,000	$103.46	$ (60,000)
						$ 90,000

Source: Company Reports; Stonegate Capital Partners

As illustrated above, the Company makes an initial purchase of a TBA at step 1. Prior to the settlement date, (step 2 above) the Company "rolls" the contract forward by executing a sale of a similar contract purchased at step 1, and purchasing another TBA contract with a later settlement date. The final step 3, then closes the dollar roll trade. We note that during step 2, the contract purchased for a forward settlement is normally priced at a discount to the contract sold. This discount is called the "price drop". The "price drop" is economically equivalent to the expected net interest income (interest income minus financing costs) that is earned from a direct investment in an agency MBS (think repo financing).

Importantly, dollar roll transactions are a form of off-balance sheet financing. Over the past few years, these transactions have become more pervasive due to the implied net interest income (price drop), being higher than the net interest income earned from purchasing a specific agency MBS financed via a repo agreement. The Fed's quantitative easing has been a key driver of this trend.

Exhibit 4: Repo Financing vs. TBA Dollar Roll Illustrative Example

	Agency MBS Funded with Repo (1)	TBA Dollar Roll (3)	Dollar Roll Advantage
Agency MBS yield / dollar roll net interest spread	3.00%	2.04%	
Financing cost of agency MBS funded with repo (2)	-1.31%	-	
Economic net interest spread (4)	**1.69%**	**2.04%**	**0.35%**

(1) Assumes agency MBS effective interest earned is 3.00% inclusive of premium amortization based on expected prepayments

(2) Assumes agency MBS is financed 100% with a 30-day repurchase agreement at financing cost of 1.31%

(3) TBA dollar roll assumes a "price drop" of $0.17 which equates to an annualized net interest spread of 2.04% on a cost basis of $103.45

(4) Economic net interest spread excludes any costs associated with interest rate hedges

Source: Company Reports; Stonegate Capital Partners

Other Financing

As illustrated in Exhibit 1, Arlington Asset Investment has also used other long-term sources of financing for its operations. These include offering common stock, preferred stock, and debt securities. Currently, the Company has an ATM (at-the-market) equity agreement to offer, from time to time, up to 6M shares of its Class A common stock. It entered into the newest ATM on February 22, 2017, which was amended on August 10, 2018. As of Q219, the Company had ~11.3M shares remaining on its equity ATM agreement.

Additionally, on May 16, 2017, the Company entered into a Series B Preferred Equity Distribution agreement to sell, from time to time, up to 1.865M shares of its Series B Preferred stock (amended 3/21/19). As of Q219, the Company had ~1.6M shares remaining on its preferred ATM agreement.

Most recently, in February 2019, Arlington announced a common stock offering of 6M shares for net proceeds of ~$48.8M, which closed on 2/22/19. Also, in March 2019, the Company announced an 8.25% Series C fixed-to-floating rate cumulative redeemable preferred stock offering of 1.2M shares for net proceeds of ~$28.9M, which closed 3/12/19. Proceeds from both offerings are being used to purchase target assets and for general working capital purposes.

RISK MANAGEMENT STRATEGY

Arlington Asset Investment uses a variety of strategies to hedge a portion of its portfolio. The main risks that the Company is looking to hedge or manage include:

(1) interest rate risk
(2) prepayment risk
(3) spread risk
(4) extension risk
(5) credit risk
(6) liquidity risk
(7) and regulatory risks

The Company's hedging instruments include interest rate swaps, interest rate swap futures, U.S. Treasury note futures, Eurodollar futures, and options on U.S. Treasury note futures. As expected, the Company will hedge when it believes the hedge is prudent given its investment strategy and the cost of the hedge. Also, some of the risks above may remain unhedged if the Company believes that bearing the risk will enhance its return relative to its risk/return targets. It's important to note that the Company's hedging activities are designed to minimize certain risk exposures but not eliminate them.

Given Arlington's use of short-term financing (repos) to purchase long-term investments (MBS), the Company primarily uses interest rate swaps to hedge interest rate sensitivity of the financing cost and to protect the value of the MBS portfolio. Therefore, the Company is looking to lock in a portion of the net interest income spread (interest income on MBS less financing costs) and to protect book value. Importantly, the Company's focus on hedging is to maintain this net interest income spread return and its consistency over a long period of time. The Company believes this focus should drive a high return on capital and support a consistent dividend.

Arlington also uses asset selection to help mitigate risks such as prepayment risk. Thus, the Company aims to invest in MBS securities that have a lower probability of prepayment. Typical characteristics of these MBS securities might include mortgages with (1) low remaining balances, (2) have high loan-to-value ratios, (3) credit scores of borrowers are on the lower end of the range for GSE underwriting standards, (4) certain geographic areas, and (5) loans originated through certain government programs.

RISKS

Interest rate risk – The Company's portfolio primarily consists of long-term, fixed rate agency MBS and finances its purchases through short-term rep agreements tied to floating rates based on LIBOR. Any unexpected changes in interest rates may cause asset values, financing costs, and hedging strategies to perform differently than planned. Changes in the yield curve could also negatively affect the Company's portfolio and earnings.

Prepayment risk – Arlington's MBS portfolio receives income derived from payments made by borrowers of the underlying mortgage loans. If borrowers prepay loans at a faster rate than anticipated, the MBS portfolio may be reinvested in lower yielding securities. If rates rise, prepayment trends would likely extend causing the Company to hold lower yielding securities. Additionally, if prepayments are greater than expected, the Company may be required to increase the premium amortization of its assets, which would negatively impact net interest income.

Leverage risk – The Company's investment strategy relies on short-term debt. If the cost of this financing increases or becomes unavailable, the Company's financial results would be negatively impacted.

Liquidity risk – Arlington's strategy is reliant on liquidity. This liquidity comes in the form of access to funds to implement its strategy, and in the Company's ability to sell investments if necessary. Any changes to market liquidity, or perceived liquidity issues of the Company would negatively impact financial results.

RECENT RESULTS

At Q219, the Company's book value was $7.80/ common share compared to $8.70/common share at Q119 end. With AI's election for REIT status, its book value is equivalent to its tangible book value, and the Company's deferred tax assets and liabilities were eliminated as of year-end. Arlington declared a dividend of $0.225 per common share for Q219, reduced from its Q119 dividend of $0.375/share. Non-GAAP core operating income was $0.23/share for Q219, approximately even with the quarterly dividend per share. Core EPS or core operating income is a non-GAAP figure that captures the net swap interest costs, which is excluded from net interest income but shown as a loss on derivatives for GAAP. We note that the figure is a better indicator of dividend capacity compared to GAAP income or GAAP EPS.

Exhibit 5: Non-GAAP Core Operating Income

(Unaudited, in thousands except per share amounts)	Q2 2019	Q1 2019	Q4 2018	Q3 2018
GAAP net interest income	$ 6,582	$ 7,917	$ 10,624	$10,338
TBA dollar roll income	1,995	1,420	2,940	4,604
Interest rate swap net interest income	3,769	4,747	2,304	2,295
Economic net interest income	12,346	14,084	15,868	17,237
Investment advisory fee income	—	250	—	—
Core general and administrative expenses	(3,207)	(3,603)	(2,324)	(3,202)
Preferred stock dividend	(774)	(278)	(153)	(151)
Non-GAAP core operating income	**$ 8,365**	**$10,453**	**$ 13,391**	**$13,884**
Non-GAAP core operating income per diluted common share	**$ 0.23**	**$ 0.32**	**$ 0.44**	**$ 0.47**
Weighted average diluted common shares outstanding	36,644	33,139	30,437	29,718

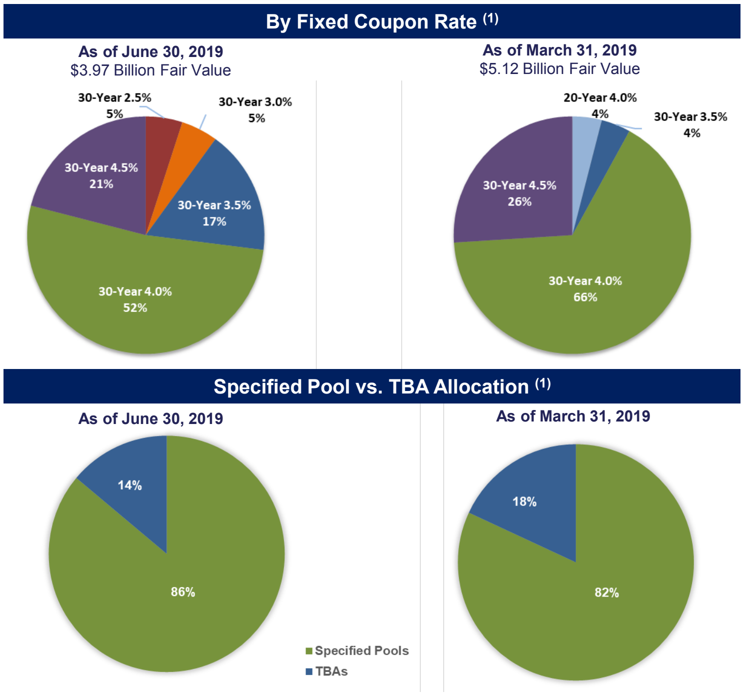
Source: Company Reports; Stonegate Capital Partners

Also, for Q219, Arlington generated net interest income of $6.6M compared to net interest income of $7.9M in the Q119. From this, Arlington reported a GAAP net loss of $0.67/share for Q219, compared to GAAP net income of $0.52/share in the Q119.

The Company's actual constant prepayment rate for its agency MBS increased to 10.2% in Q219 compared to 7.5% in Q119. The average agency MBS yield was 3.2% in Q219 versus 3.4% in Q119. Additionally, the Company's average cost of its repo agreements was 2.61% in Q219, compared to 2.73% in Q119.

As of 6/30/19, Arlington Asset Investment Corporation's portfolio totaled ~$4 billion, comprised of $3.4 billion of specified agency MBS and $0.6 billion in net long TBA agency MBS.

Exhibit 6: Investment Portfolio Allocation



(1) *Includes the fair value of the agency MBS underlying forward-settling "to-be-announced ("TBA") purchase or sale commitments that are accounted for as derivative instruments in accordance with GAAP. The difference between the contractual forward price of the Company's TBA commitments and the fair value of the underlying MBS is reflected on the Company's consolidated balance sheets as a component of "derivative assets, at fair value" or "derivative liabilities, at fair value."*

Source: Company Reports; Stonegate Capital Partners

During the second quarter of 2019, the Company increased its allocation to 2.5%, 3.0% and 3.5% 30-year securities while decreasing its exposure to 4.0% and 4.5% 30-year, among other adjustments. Management noted that the Company shifted more of its agency MBS investment portfolio exposure towards lower coupon securities that carry lower premiums in addition to reduced prepayment risk, and that process continued into the third quarter of 2019.

Again, we note that on 12/27/18, the Board approved a plan for the Company to elect to be taxed and operate in a manner such that Arlington would qualify to be taxed as a REIT for US federal income tax purposes beginning in 2019 (prior to this, Arlington was taxed as a corporation under Subchapter C of IRS code). Arlington reported that as of 6/30/19, the Company had $14.5M net operating losses, $411.4M net capital losses, and $9.1M ATM carryforwards that should help reduce taxable income and therefore its REIT distribution requirements going forward.

The Company also maintained a substantial hedge position, which included primarily interest rate swaps as illustrated in Exhibit 7.

Exhibit 7: Hedging Portfolio Summary

Interest Rate Swaps as of June 30, 2019 (dollars in thousands):

		WEIGHTED-AVERAGE				
Remaining Life	Notional Amount	Fixed Pay Rate	Variable Receive Rate	Net Receive (Pay) Rate	Remaining Life (Years)	Duration (1)
Less than 3 years to maturity	$ 1,675,000	1.64%	2.46%	0.82%	1.5	(1.3)
3 to less than 7 years to maturity	500,000	1.67%	2.40%	0.73%	6.1	(5.6)
7 to less than 10 years to maturity	400,000	2.88%	2.52%	(0.36%)	9.4	(9.1)
10 or more years to maturity	25,000	2.96%	2.42%	(0.54%)	28.7	(24.1)
Total / weighted average	**$ 2,600,000**	**1.85%**	**2.46%**	**0.61%**	**3.9**	**(3.5)**

Q2 2019 Interest Rate Swap Activity

		WEIGHTED-AVERAGE:	
	Notional	Fixed Pay Rate	Years to Maturity
Early terminations	$ (900,000)	2.73%	8.3
Additions	650,000	1.93%	4.1
Net impact to swap book	**$ (250,000)**	**-0.26%**	**(1.6)**

U.S. Treasury Note Futures as of June 30, 2019 (dollars in thousands):

	Maturity Date	Notional Amount	Weighted-average Implied Rate	Duration (1)
10-year U.S. Treasury note futures	**September 2019**	**$ 155,000**	**2.01%**	**(7.8)**

(1) *Duration is calculated based upon each interest rate swap's "DV01" (a valuation metric illustrating the dollar value of a one basis point increase in interest rates) as reported by the Chicago Mercantile Exchange, the clearinghouse through which those instruments were centrally cleared. Duration is a measure of how much the price of an asset or liability is expected to change if interest rates move in a parallel manner.*

Source: Company Reports; Stonegate Capital Partners

We also note that the Company's interest rate swap notional to repo ratio decreased to 78% in Q219 compared to 84% in Q119 (Exhibit 8). Also, the Company's weighted average net receive rate of its interest rate swap agreements decreased to 0.50% for Q219 vs. 0.59% during the first quarter of 2019. And in addition to interest rate swap agreements, Arlington held $155M in an equivalent notional amount of short positions in 10-year US Treasury note futures as of 6/30/19 with the 10-year US Treasury rate of 2.01%. Further detail of the portfolio is listed below.

Exhibit 8: Portfolio Weighted Average Statistics

(dollars in thousands)	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Specified agency MBS:				
Constant prepayment rate	10.16%	7.55%	8.25%	10.66%
GAAP asset yield	3.21%	3.36%	3.30%	3.11%
Weighted average GAAP amortized cost basis	$ 4,025,014	$ 3,998,040	$ 4,468,688	$ 4,204,472
Repurchase agreements:				
Weighted average financing rate	(2.64)%	(2.68)%	(2.43)%	(2.17)%
Weighted average balance	$ 3,728,583	$ 3,680,429	$ 4,080,098	$ 3,841,280
Interest rate swaps:				
Weighted average fixed pay rate	(2.10)%	(2.11)%	(2.12)%	(2.03)%
Weighted average variable receive rate	2.60%	2.70%	2.45%	2.33%
Weighted average net receive (pay) rate	0.50%	0.59%	0.33%	0.30%
Weighted average notional amount	$ 2,895,663	$ 3,095,411	$ 3,441,129	$ 3,372,151
Interest rate swap notional to repo ratio	78%	84%	84%	88%
Economic cost of funds (1)	(2.24)%	(2.16)%	(2.20)%	(1.93)%
TBA dollar rolls:				
Implied net interest spread	0.84%	1.05%	1.66%	1.86%
Weighted average implied cost basis	$ 947,965	$ 538,885	$ 707,725	$ 990,231
Total asset average cost basis	**$ 4,972,979**	**$ 4,536,925**	**$ 5,176,413**	**$ 5,194,703**
Specified agency MBS allocation	**81%**	**88%**	**86%**	**81%**
TBA dollar roll allocation	**19%**	**12%**	**14%**	**19%**
Core net interest margin / return on assets (2)	**1.10%**	**1.35%**	**1.36%**	**1.46%**

(1) *Calculated as the total of the following, expressed as an annualized percentage of the total agency MBS weighted average cost basis for the period: GAAP interest income from agency MBS, plus TBA dollar roll income, less agency MBS repurchase agreement interest expense, less interest rate swap net interest expense.*

Source: Company Reports; Stonegate Capital Partners

Additionally, we note that Arlington publishes a sensitivity analysis for changes in book value for given changes in interest rates, which we illustrate in Exhibit 9.

Exhibit 9: Interest Rate Sensitivity Analysis

Interest Rate Sensitivity as of June 30, 2019 (3)

	-100 bps	-50 bps	As of 6/30/2019	+50 bps	+100 bps
Common Stockholders' Equity	$ 254,313	$ 275,485	$ 285,438	$ 273,778	$ 239,660
Percentage Change	-10.9%	-3.5%	-	-4.1%	-16.0%

(3) Interest rate sensitivity of agency MBS and TBA commitments is derived from The Yield Book, a third-party model. Actual results could differ significantly from these estimates. Interest rate sensitivity is based on assumptions resulting in certain limitations, including (i) an instantaneous shift in rates with no changes to the slope of the yield curve, (ii) no changes in agency MBS spreads, (iii) no changes to the investment or hedge portfolio, and (iv) no changes to the deferred tax liability.

Source: Company Reports; Stonegate Capital Partners

Lastly, the Company also publishes a sensitivity analysis for spread risk changes to book value.

Exhibit 10: Spread Risk Sensitivity Analysis

MBS Spread Sensitivity as of June 30, 2019 (1)

	-25 bps	-10 bps	As of 6/30/2019	+10 bps	+25 bps
Common Stockholders' Equity	$ 331,748	$ 303,962	$ 285,438	$ 266,914	$ 239,129
Percentage Change	16.2%	6.5%	-	-6.5%	-16.2%

(1) Agency MBS spread sensitivity is derived from The Yield Book, a third-party model. Actual results could differ significantly from these estimates. The estimated change in book value reflects an assumed spread weighted average duration of 4.8 years, which is a model-based assumption that is dependent upon the size and composition of our portfolio as well as economic conditions present as of March 31, 2019. The agency MBS spread sensitivity is based on assumptions resulting in certain limitations, including no changes in interest rates and no changes to the investment or hedge portfolio.

Source: Company Reports; Stonegate Capital Partners

MARKET TRENDS AND OUTLOOK

Recent MBA economic reports show that the global economy is slowing in 2019 at a greater extent than originally anticipated. Although unemployment remains relatively low, the job market is expected to start to slow as US economic growth shows some strain, with growth decreasing to ~2% this year and then closer to 1% in 2020. Market volatility and trade tensions will likely continue to affect consumer confidence and housing demand.

Job growth averaged over 200,000 jobs per month in 2018, which was the strongest payroll growth since 2015; this continues to increase wage growth and maintain confidence among homebuyers but is expected to slow in 2019 and beyond. The unemployment rate should settle at 3.6% for 2019, and then reach 4.1% for both 2020 as well as 2021.

The Federal Reserve could announce further rate cuts following July 2019, with two being forecasted for this year, which could cause more volatility in the upcoming months and give potential buyers pause (while offering opportunities for some looking to refinance).

Given the macroeconomic environment, the housing markets are expected to remain favorable in the near-term, with recent purchase applications for existing home sales continuing with positive trends in 2019. Inventory of recent homes coming onto the market has increased although still somewhat strained given demand, and prices continue to increase, but at a slower pace than in recent years.

One issue with the housing market has been the weakening supply of new houses for sale; builders report challenges finding the labor to complete projects. At the same time, the costs of building supplies such as lumber and other items have increased significantly. Lenders likewise report fierce competition for new business among the industry players.

In Exhibit 11, we present the MBA's Mortgage Finance Forecast as of 8/15/19.

Exhibit 11: MBA Economic Forecast

MBA Mortgage Finance Forecast

August 15, 2019

	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2018	2019	2020	2021
Housing Measures																
Housing Starts (SAAR, Thous)	1,321	1,260	1,233	1,185	1,213	1,263	1,250	1,250	1,250	1,255	1,270	1,280	1,250	1,244	1,264	1,280
Single-Family	893	894	876	828	864	842	850	860	870	875	890	900	873	854	884	900
Two or More	428	365	357	357	349	420	400	390	380	380	380	380	377	390	380	380
Home Sales (SAAR, Thous)																
Total Existing Homes	5,507	5,407	5,307	5,143	5,323	5,351	5,336	5,417	5,422	5,444	5,433	5,479	5,341	5,357	5,444	5,529
New Homes	656	633	605	575	660	660	664	670	665	667	673	682	617	663	672	682
FHFA US House Price Index (YOY % Change)	6.9	6.9	6.8	6.0	5.5	5.2	5.0	4.7	4.4	4.1	3.8	3.5	6.0	4.7	3.5	2.6
Median Price of Total Existing Homes (Thous $)	243.8	265.6	263.9	255.7	253.0	276.9	273.7	270.3	272.1	269.6	270.8	271.9	257.3	268.5	271.1	274.7
Median Price of New Homes (Thous $)	330.7	313.9	325.7	322.2	312.3	317.0	321.6	326.6	330.5	326.3	327.5	328.6	323.1	319.4	328.3	332.1
Interest Rates																
30-Year Fixed Rate Mortgage (%)	4.3	4.5	4.6	4.8	4.4	4.0	3.7	3.7	3.7	3.8	4.0	4.0	4.8	3.7	4.0	4.1
10-Year Treasury Yield (%)	2.8	2.9	2.9	3.0	2.7	2.3	1.8	1.9	1.9	2.0	2.2	2.2	3.0	1.9	2.2	2.3
Mortgage Originations																
Total 1- to 4-Family (Bil $)	342	452	457	392	325	501	605	461	361	483	471	414	1,643	1,892	1,729	1,740
Purchase	214	334	346	291	228	355	375	301	236	358	369	310	1,185	1,259	1,273	1,308
Refinance	128	118	111	101	97	146	230	160	125	125	102	104	458	633	456	432
Refinance Share (%)	37	26	24	27	30	29	38	35	35	26	22	25	28	33	26	25
Mortgage Debt Outstanding																
1- to 4-Family (Bil $)	10,108	10,189	10,280	10,337	10,427	10,496	10,592	10,679	10,760	10,846	10,933	11,011	10,337	10,679	11,011	11,335

Source: Mortgage Bankers Association

VALUATION

We are using a comparison analysis to value Arlington Asset Investment Corp. Our comparison companies include other mortgage REITS that primarily invest in agency mortgage backed securities.

					MRQ			EPS (3)			P/E						
Name	Ticker	Price (1)	S/O	Mrkt Cap	Assets	BV/sh	TBV/sh (2)	2017	2018	2019E	2018	2019E	P/BV	P/TBV	Annual Dividend (4)	Dividend Yield (%)	Leverage Ratio (5)
Annaly Capital Management, Inc.	NLY	$ 8.80	1,456.3	$ 12,815.4	131,801	$ 9.33	$ 9.27	$ 1.37	$ (0.06)	$ 1.05	-146.7x	8.4x	0.94x	0.95x	$ 1.00	11.4%	6.8x
AGNC Investment Corp.	AGNC	$ 15.65	547.8	$ 8,573.1	106,576	$ 17.54	$ 16.58	$ 2.04	$ 0.21	$ 2.02	74.5x	7.7x	0.89x	0.94x	$ 2.00	12.8%	8.1x
Two Harbors Investment Corp.	TWO	$ 13.10	272.9	$ 3,575.0	34,340	$ 14.17	$ 14.26	$ 1.60	$ (0.53)	$ 1.69	-24.7x	7.8x	0.92x	0.92x	$ 1.60	12.2%	5.7x
Capstead Mortgage Corporation	CMO	$ 7.73	96.0	$ 741.7	11,927	$ 8.93	$ 9.02	$ 0.65	$ 0.34	$ 0.42	22.7x	18.4x	0.87x	0.86x	$ 0.48	6.2%	10.4x
Anworth Mortgage Asset Corporation	ANH	$ 3.29	98.8	$ 324.9	4,481	$ 4.53	$ 4.56	$ 0.47	$ (0.16)	$ 0.40	-20.6x	8.2x	0.73x	0.72x	$ 0.44	13.4%	5.8x
Orchid Island Capital, Inc.	ORC	$ 5.90	63.1	$ 372.0	3,727	$ 6.63	$ 6.63	$ 0.05	$ (0.85)	$ 0.92	-6.9x	6.4x	0.89x	0.89x	$ 0.96	16.3%	9.3x
Ellington Residential Mortgage REIT	EARN	$ 10.02	12.5	$ 124.9	1,697	$ 12.40	$ 12.40	$ 0.93	$ (0.88)	$ 0.94	-11.4x	10.7x	0.81x	0.81x	$ 1.12	11.2%	9.5x
							Average	**$ 1.02**	**$ (0.28)**	**$ 1.06**	**-16.1x**	**9.7x**	**0.86x**	**0.87x**		**11.9%**	**7.9x**
							Median	**$ 0.93**	**$ (0.16)**	**$ 0.94**	**-11.4x**	**8.2x**	**0.89x**	**0.89x**		**12.2%**	**8.1x**
Arlington Asset Investment Corp.	**AI**	**$5.20**	**36.7**	**$ 190.6**	**4,064**	**$ 7.80**	**$ 7.80**	**$ 2.26**	**$ 2.06**	**$ 1.02**	**2.5x**	**5.1x**	**0.67x**	**0.67x**	**$ 0.90**	**17.3%**	**10.9x**

(1) Previous day's closing price

(2) TBV is calculated as Common Equity less intangible assets less deferred tax assets

(3) Estimates are from CapitalIQ except for AI which are Stonegate estimates

(4) Dividend is the MRQ dividend annualized

(5) Leverage ratio is st debt or portfolio debt to common equity

Source: Company Reports, Capital IQ, Stonegate Capital Partners

Price / Book

As seen above, Arlington Asset Investment Corp. is trading a P/TBV 0.67x and has a dividend yield of 17.3%. Considering current and historical trading ranges of comps and AI, as well historical industry multiples, we believe using a P/TBV multiple range of 0.80x to 1.20x is reasonable. Therefore, using the 0.80x to 1.20x P/TBV range, we arrive at a valuation range of ~$6.24 to ~$9.36 with a mid-point of ~$7.80.

Price / Earnings

Based on our FY19 EPS estimate, Arlington is trading a P/E ratio of 5.1x vs. median comparables at 8.2x. Considering current and 3-year historical trading ranges of AI and comps, we believe using a P /E multiple range of 4.0x to 8.0x is reasonable. Using the range on our FY19 EPS estimate, we arrive at a valuation range of ~$4.09 to ~$8.18 with a mid-point of ~$6.14.

Dividend Yield

Currently, Arlington Asset Investment Corp. is trading a dividend yield of 17.3% vs. median comps at 12.2%. Most mortgage REITs typically trade on dividend yield expectations. The higher yield may indicate that investors are concerned with Arlington's dividend. We note that our FY19 core EPS of $1.02 falls just below the current annual distribution estimate of $1.05/per share.

Precedent Transactions

We note that two significant agreements were announced last year affecting our comps analysis. In April 2018, Two Harbors Investment Corp. announced a definitive agreement to acquire CYS Investments, Inc. (closed 7/31/18). Per disclosures, CYS shareholders received a P/BV of ~1.1x. We also note that the transaction included a P/E valuation of ~9.3x for CYS investors.

Also, in May 2018, Annaly Capital Management, Inc. announced its acquisition of MTGE Investment Corp., with shareholders receiving ~1.0x P/BV (closed 9/7/18); however, once transaction fees and termination fees (to MTGE's manager) were paid on the deal, Annaly paid closer to a ~1.1x MTGE's book value. We also note that this transaction included an approximate 14.7x P/E multiple.

Both transactions further demonstrate the discount at which Arlington currently trades relative to peer valuations.

INCOME STATEMENT

Arlington Asset Investment Corp. (NYSE: AI)
Consolidated Statements of Income (in thousands $, except per share amounts)
Fiscal Year: December

	FY 2016	FY 2017	FY 2018	FY 2019E
Interest Income				
Agency mortgage-backed securities	$ 97,053	$ 120,968	$ 130,258	$ 128,700
Private label mortgage backed securities	7,910	101	20	-
Other	373	179	675	1,000
Total Interest Income	**105,336**	**121,248**	**130,953**	**129,700**
Interest Expense				
Short-term debt	24,433	46,648	79,812	95,100
Long-term debt	4,789	4,866	5,013	5,300
Total Interest Expense	**29,222**	**51,514**	**84,825**	**100,400**
Net Interest Income	**76,114**	**69,734**	**46,128**	**29,300**
Investment gain (loss), net				
Realized gain on sale of AFS, net	4,777	-	-	-
Other-than-temporary impairment charges	(1,737)	-	-	-
(Loss) gain on trading investments, net	(41,249)	2,424	(114,522)	111,407
(Loss) gain from derivative instruments, net	(31,660)	3,224	(9,657)	(124,277)
Other, net	551	226	357	(10)
Total investment loss, net	**(69,318)**	**5,874**	**(123,822)**	**(12,880)**
General and administrative expenses				
Compensation and benefits	11,526	13,203	8,329	12,000
Other general and administrative expenses	9,230	5,367	5,041	5,000
Total general and administrative expenses	**20,756**	**18,570**	**13,370**	**17,000**
(Loss) income before income taxes	**(13,960)**	**57,038**	**(91,064)**	**(580)**
Income tax provision (benefit)	27,387	39,603	733	-
Preferred stock dividend	-	251	590	1,800
Net (loss) income	**$ (41,347)**	**$ 17,184**	**$ (92,387)**	**$ (2,380)**
Basic EPS - GAAP	**$ (1.79)**	**$ 0.67**	**$ (3.18)**	**$ (0.07)**
Diluted EPS - GAAP	**$ (1.79)**	**$ 0.66**	**$ (3.18)**	**$ (0.07)**
Weighted average shares outstanding				
Basic	23,051	25,649	29,052	35,500
Diluted	23,051	26,011	29,052	35,500
Core Operating Income				
GAAP net interest income	76,114	69,734	46,128	29,300
TBA dollar roll income	19,261	21,291	20,929	6,800
Interest rate swap net interest	(17,825)	(17,334)	6,266	15,900
Economic net interest income	77,550	73,691	73,323	51,700
Investment advisory fee income	-	-	-	250
Core general and administrative expense	13,802	14,644	12,534	13,600
Preferred stock dividend	-	251	590	1,800
Core operating income	**$ 63,748**	**$ 58,796**	**$ 60,199**	**$ 36,050**
Core operating income/share	**$ 2.75**	**$ 2.26**	**$ 2.06**	**$ 1.02**
Weighted average diluted shares outstanding	23,202	26,011	29,269	35,500

BALANCE SHEETS

Arlington Asset Investment Corp. (NYSE: AI)
Consolidated Balance Sheets (in thousands $, except per share amounts)
Fiscal Year: December

	FY 2016	FY 2017	FY 2018	Q2 2019
Assets				
Cash and cash equivalents	$ 54,794	$ 21,614	$ 26,713	$ 34,684
Interest receivables	11,646	12,546	13,349	12,471
Sold securities receivable	-	-	-	546,106
Mortgage-backed securities, at fair value agency				
Agency	3,911,375	4,054,424	3,982,106	3,414,580
Private label	1,266	76	24	26
Derivative assets, at fair value	74,889	763	438	6,243
Deferred tax asset-net	48,829	800	-	-
Deposits	11,149	59,103	61,052	31,247
Other assets	3,003	11,203	15,768	18,535
Total Assets	**$ 4,116,951**	**$ 4,160,529**	**$ 4,099,450**	**$ 4,063,892**
Liabilities				
Repurchase agreements	$ 3,649,102	$ 3,667,181	$ 3,721,629	$ 3,531,539
Federal home loan bank advances	-	-	-	-
Interest payable	3,434	4,418	4,646	3,336
Accrued compensation and benefits	5,406	5,015	3,732	2,436
Dividend payable	15,739	17,550	11,736	8,392
Derivative liabilities, at fair value	9,554	4,833	6,959	3,131
Purchased securities payable	-	-	-	113,019
Deferred tax liabilities, net	-	-	-	-
Other liabilities	1,247	1,335	2,200	3,534
Long-term unsecured debt	73,656	73,880	74,104	74,216
Total Liabilities	**3,758,138**	**3,774,212**	**3,825,006**	**3,739,603**
Shareholders' Equity				
Preferred stock	-	7,108	8,245	37,240
Class A common stock - par value	236	281	305	366
Class B common stock - par value	-	-	-	-
Additional paid in capital	1,910,284	1,974,941	1,997,876	2,047,616
Accumulated other comprehensive income	-	-	-	-
Accumulated deficit/retained earnings	(1,551,707)	(1,596,013)	(1,731,982)	(1,760,933)
Total Shareholders Equity	**358,813**	**386,317**	**274,444**	**324,289**
Total Liabilities & Shareholders Equity	**$ 4,116,951**	**$ 4,160,529**	**$ 4,099,450**	**$ 4,063,892**
Book value per common share	$ 15.19	$ 13.43	$ 8.71	$ 7.80
Tangible book value per common share	$ 13.12	$ 13.40	$ 8.71	$ 7.80

RECENT NEWS

August 6, 2019 – Company announces Q219 financial results

June 24, 2019 – Arlington declares a dividend of $0.225 per share on its common stock for Q219

May 16, 2019 – Arlington declares a dividend of $0.4375 per share on its Series B preferred stock

May 1, 2019 – Company announces Q119 financial results

March 18, 2019 – Arlington declares $0.375 dividend per common share for Q119

March 5, 2019 – Company announces pricing of 8.25% Series C fixed-to-floating rate cumulative redeemable preferred stock offering of 1.2M shares for gross proceeds of ~$30M, expected to close 3/12/19

February 19, 2019 – Arlington reports Q418 and full year 2018 financial results; the Company also announces common stock offering of 6M shares for expected gross proceeds of ~$50M and closing on 2/22/19

February 15, 2019 – For Q119, Arlington declares a dividend of $0.4375 per share on its Series B preferred stock

January 17, 2019 – Company announces that Melinda H. McClure has joined Arlington as a new independent director

December 27, 2018 – Company announces election of REIT status for tax year ending 12/31/19

December 13, 2018 – Arlington declares $0.375 dividend per common share for Q418

November 29, 2018 - Company declares a dividend of $0.4375 per share on its Series B preferred stock for Q418

October 23, 2018 – Arlington reports financial results for the third quarter of 2018

September 13, 2018 - Arlington declares $0.375 dividend per common share for Q318

CORPORATE GOVERNANCE

Eric F. Billings, Executive Chairman – Mr. Billings co-founded the company in 1989, and established the company's principal investing unit as FBR Asset Investment Corp. in 1997. Mr. Billings served as Chairman of FBR & Co., a publicly-traded investment banking, institutional brokerage and asset management firm, a position he held since its formation in 2006 until his retirement in 2012. From 2006 to 2008, Mr. Billings also served as the Chief Executive Officer of FBR & Co. In addition, he concurrently holds the position of Senior Managing Partner and Co-Portfolio Manager of Billings Capital Management, LLC, an investment management company he runs with his sons. Mr. Billings began his 30-year investment career at Legg Mason, Inc. as an investment analyst and salesperson in the Institutional Brokerage division. In 1983 he joined Johnston Lemon Corp. where he built and managed their Washington, DC institutional brokerage group until 1989. He was born in Boston, MA and is a graduate of the University of Maryland with a B.A. in Economics and Finance.

J. Rock Tonkel, Jr., President, CEO, - Prior to his current position, he was the company's President and COO, a position he held since 2007. Prior to 2007, he was President and Head of Investment Banking at FBR Capital Markets & Co. Mr. Tonkel joined FBR Capital Markets & Co. in 1994 as Head of Investment Banking's Financial Institutions Group. Prior to joining FBR Capital Markets & Co., Mr. Tonkel served as Special Assistant to the Director of the Office of Thrift Supervision, the regulatory agency for the savings and loan industry. At the Office of Thrift Supervision, Mr. Tonkel oversaw the restructuring of many of the nation's largest troubled thrifts and savings banks. Mr. Tonkel received his Bachelor of Arts degree in economics from Amherst College.

Richard Konzmann, EVP, CFO – Prior to joining the Company in March 2015, Mr. Konzmann was employed by American Capital, Ltd., a publicly traded private equity firm and global asset manager, from 2002 until March 2015. In 2006, he became Senior Vice President, Accounting of American Capital, Ltd. where he was responsible for all accounting, financial reporting, loan servicing and tax compliance for the alternative asset management company and its funds under management, including publicly traded mortgage real estate investment trusts, publicly traded business development companies and private equity funds. Prior to joining American Capital, Ltd., Mr. Konzmann served in various controllership, finance and asset management roles with Crestline Capital Corporation and Host Marriott Corporation and began his career with the public accounting firm Deloitte and Touche LLP. Mr. Konzmann graduated from Pennsylvania State University with a Bachelor of Science in Accounting and is a Certified Public Accountant and Certified Valuation Analyst.

Brian J. Bowers, CIO, Portfolio Manager– Mr. Bowers is responsible for the principal investing activities of the firm's portfolio, overseeing the daily investing operations and the direction of the portfolio. Mr. Bowers joined the Company in 2000, and has over 20 years of fixed income experience, portfolio analysis and management. Previously, he was the Chief Portfolio Strategies for BB&T Capital Markets and the Portfolio Manager/Plan Sponsor of CareFirst, Inc. Mr. Bowers earned a Bachelor of Science in Finance from the University of Maryland and an M.B.A. from Loyola College.

Board of Directors:

Eric F. Billings – *Executive Chairman*

Anthony P. Nader, III - *Director*

Melinda H. McClure – *Director*

Daniel E. Berce – *Director*

David W. Faeder – *Director*

J. Rock Tonkel, Jr. – *Director*

Ralph S. Michael, III – *Director*

KEY TERMS AND METRICS

Net interest income – This represents "revenue" and is the difference between the income generated from interest bearing assets less the financing costs associated with acquiring the assets.

Net interest margin – Measurement that represents how successful a firm is at investing its capital in comparison to the total amount of capital employed. It is calculated as net interest income divided by earning assets.

Economic net interest income – This is a non-GAAP financial measure. Arlington calculates the figure as GAAP net interest income plus TBA dollar roll income less net interest expenses from interest rate swap agreements.

Core operating income / EPS - Core EPS or core operating income is a non-GAAP figure that often excludes "non-core" items such as gains and losses from investments. Arlington calculates core operating income as economic net interest income less core G&A expenses. Core G&A expenses typically exclude stock option expense. Management uses this figure to evaluate the performance of the investment strategy and core business over time.

Book value – Book value is calculated as total equity less preferred stock.

Tangible book value – Mortgage REITS or other mortgage investing entities calculate tangible book value as book value less deferred tax asset.

Mortgage Backed Security (MBS) – A MBS is a type of asset backed bond that is secured by a mortgage or pool of mortgages. These mortgages are sold to entities that "package" the loans together into a security for investors to buy. The investor in a MBS security receives interest and principal payments that are "passed-through" when borrowers pay their mortgages.

Agency MBS – An agency MBS is issued by a government entity or government sponsored entity such as Federal National Mortgage (Fannie Mae or FNMA), Federal Home Loan Mortgage Corp. (Freddie Mac) and/or Government National Mortgage Association (Ginnie Mae or GNMA). GNMAs are backed by the full faith and credit of the US government. FNMA and Freddie Mac securities offer an implicit guarantee from the US Government. What this means is that investors believe that should something happen to FNMA or Freddie Mac, the US government would act and guarantee these securities. As the guarantee is "implicit" and not a direct guarantee of the US government, the securities offer higher yields than treasury securities.

Private label MBS – Private label MBS or non-agency MBS are mortgage backed securities that are issued by private entities such as a financial institution. Private label MBS have a higher credit risk than agency MBS as private label MBS are guaranteed by the private entity. As a result, private label MBS will typically offer a higher yield to compensate for higher risk.

TBA security – A TBA (to-be-announced) is a forward contract for the purchase or sale of a MBS security with predetermined features such as: (1) price, (2) face amount, (3) issuer, (4) coupon, and (5) stated maturity. However, the specific agency securities to be delivered against the forward contract are not identified until shortly before the settlement date. The Federal Reserve estimates that over 90% of MBS trading occurs in the TBA market.

TBA dollar roll – This is a form of short-term financing using the TBA market. A dollar roll transaction combines the sale of a TBA with current month settlement with a simultaneous purchase of a similar TBA with settlement in the next month. The purchase price is normally lower than the sale price and is referred to as dollar roll or drop. This dollar roll or price drop is the implied net interest income earned from TBA dollar roll transactions.

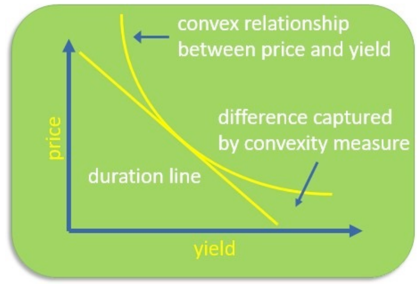
Interest rate swap – This is an agreement between two counterparties where one stream of future interest payments is swapped in exchange for another based on a specific principal amount (notional amount). Interest rate swaps typically involve the exchange of a variable interest rate for a fixed interest rate or vice versa. Entities enter into swaps to help reduce or increase exposure to fluctuations in interest rates.

Notional amount – The notional amount is the total value of a contract or financial instrument that is used to calculate payments made on that contract or financial instrument. The amount used does not change.

Repurchase agreement - This is a form of short-term borrowing and is also known as a repo. In a repo, one party sells a security (aka collateral) to another party in exchange for cash and a promise to repurchase the exact same security in the future. The cash received will typically have a "hair-cut" to the actual value of the security being sold. The size of the haircut is dependent on the collateral and the perceived risk of the collateral falling in value.

Constant prepayment rate (CPR) - This measure is an annualized estimate of mortgage prepayments that is expected over the next year. The measurement helps model the risk of prepayments. A CPR of 10% means that 10% of the MBS pool of loans is likely to prepay in the next year.

Duration – Duration is a measure of the sensitivity of the price of a bond to a change in interest rates. Duration is measured in years and is a linear measure. The higher the duration number, the larger the potential the swing in the price of the bond. For example, if a bond has a duration of 8.0, then this means if interest rates drop by 1.0%, the price of the bond will increase 8.0%. While duration is a linear measure, the actual changes to the bond price is unlikely to change in a linear manner.



Convexity – Convexity measures the curvature of a bond price and yield relationship. It is a "second derivative", which essentially means it measures the rate of change in change. While duration is a linear measure, convexity is a non-linear measure and when used along with duration, helps investors better understand an approximate change in bond price given the change in interest rates. The higher the convexity of a bond, the more sensitive it is to interest rate fluctuations.

Prepayment risk – This is the risk that borrowers will repay a loan before its maturity. While this provides higher payments that are passed through to the investors of mortgage backed securities, it also presents a risk. First, prepayments are generally higher when interest rates are dropping as borrowers are more apt to refinance and the volume of home sales/purchases is likely to increase as well. As a result, the owner of a MBS will receive more income that will likely need to be reinvested at lower interest rates. Additionally, GAAP requires investors to amortize premium and/or discounts paid for MBS into the income statement over time. The amortization of a premium reduces net income. Therefore, if prepayments accelerate, net income will experience pressure.

Interest rate risk – Bond values move inversely to interest rate changes. Thus, if interest rates increase, bond prices decline and vice versa. How sensitive a bond is to fluctuating interest rates is dependent on numerous factors such the maturity date of the bond and the coupon rate.

Spread risk – This is also referred to as basis risk and is the risk of an increase in the spread between US treasury bonds and a debt security (i.e. MBS) with similar maturity. When spreads increase, this is typically a sign that investors are demanding a higher risk premium vs. risk free securities. As such a widening of spreads could send MBS securities down in value.

THIS PAGE INTENTIONALLY LEFT BLANK

IMPORTANT DISCLOSURES AND DISCLAIMERS

The following disclosures are related to Stonegate Capital Partners "SCP" research reports.

ANALYST DISCLOSURES - I, Laura S. Engel, CPA, hereby certify that the view expressed in this research report accurately reflects my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING, REFERRALS, AND FEES FOR SERVICE - SCP does not provide nor has it received compensation for investment banking services on the securities covered in this report. SCP does not expect to receive compensation for investment banking services on the securities covered in this report. SCP has a non-exclusive Advisory Services agreement to provide research coverage, retail and institutional awareness, and overall Investor Relations support for which it is compensated $2,500 per month. SCP may engage outside consultants, SCP or SMC employees to assist in the preparation of this report or other reports released by SCP. The principles of SCP may review and or alter the content of SCP research reports based on their sole discretion. While the SCP analyst may receive input from the Company during the preparation of the report, ultimately the unbiased opinions expressed in the report are those of the analyst. Stonegate Capital Markets "SCM" (Member FINRA) is an affiliate of SCP and may seek to receive future compensation for investment banking or other business relationships with the covered companies mentioned in this report. In certain instances, SCP has contracted with SCM to produce research reports for its client companies. SCP pays SCM a monthly retainer for said services.

POLICY DISCLOSURES - SCP analysts are restricted from holding or trading securities in the issuers that they cover. SCP and SCM do not make a market in any security nor do they act as dealers in securities. Each SCP analyst has full discretion on the content and valuation discussion based on his or her own due diligence. Analysts are paid in part based on the overall profitability of SCP. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by SCP for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article. No employee of SCP serves on the Company's Board of Directors. Research analyst and/or a member of the analyst's household do not own shares of this security. The research analyst and/or a member of the analyst's household do not serve as an officer, director, or advisory board member of the Company. This security is eligible for sale in one or more states. This security is subject to the Securities and Exchange Commission's Penny Stock Rules, which may set forth sales practice requirements for certain low-priced securities. SCP or its affiliates do not beneficially own 1% or more of an equity security of the Company. SCP does not have other actual, material conflicts of interest in the securities of the Company. Stonegate relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Stonegate does not offer or provide personalized advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions.

ADDITIONAL INFORMATION - Please note that this report was originally prepared and issued by SCP for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of SCP should seek the advice of their independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. The information contained herein is based on sources, which we believe to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Because the objectives of individual clients may vary, this report is not to be construed as an offer or the solicitation of an offer to sell or buy the securities herein mentioned. This report is the independent work of SCP and is not to be construed as having been issued by, or in any way endorsed or guaranteed by, any issuing companies of the securities mentioned herein. The firm and/or its employees and/or its individual shareholders and/or members of their families and/or its managed funds may have positions or warrants in the securities mentioned and, before or after your receipt of this report, may make or recommend purchases and/or sales for their own accounts or for the accounts of other customers of the firm from time to time in the open market or otherwise. While we endeavor to update the information contained herein on a reasonable basis, there may be regulatory, compliance, or other reasons that prevent us from doing so. The opinions or information expressed are believed to be accurate as of the date of this report; no subsequent publication or distribution of this report shall mean or imply that any such opinions or information remains current at any time after the date of this report. All opinions are subject to change without notice, and we do not undertake to advise you of any such changes. Reproduction or redistribution of this report without the expressed written consent of SCP is prohibited. Additional information on any securities mentioned is available on request.

RATING & RECOMMENDATION - SCP does not rate the securities covered in its research. SCP does not have, nor has previously had, a rating for any securities of the Company. SCP does not have a price target for any securities of the Company.

CONTACT INFORMATION

Arlington Asset Investment Corp.	**Investor Relations**
Richard Konzmann	Stonegate Capital Partners
1001 19th Street North, Suite 1900	8201 Preston Rd. Suite 325
Arlington, Virginia 22209	Dallas, Texas, 75225
Phone: 703-373-0200	Phone: 214-987-4121
www.arlingtonasset.com	www.stonegateinc.com