ARLINGTON ASSET INVESTMENT

STONEGATE CAPITAL PARTNERS

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Shane Martin, CFA
Shane@stonegateinc.com
214-987-4121

MARKET STATISTICS

Exchange / Symbol:	NYSE: AI
Price:	$5.90
Market Cap ($mm):	$217.2
Shares Outstanding (mm):	36.8
Float (%):	97.9
Volume (3-month avg.):	485,319
52 Week Range:	$4.89-$8.41
Industry:	Financial Services

CONDENSED BALANCE SHEET

($mm, except per share data)

Balance Sheet Date:	12/31/2019
Cash & Cash Equivalent:	$21.05
Cash/Common Share:	$0.57
LT Debt:	$74.3
Equity (Book Value):	$327.2
Equity/Common Share:	$7.86

CONDENSED INCOME STATEMENTS

($mm, except per share data)

FY – 12/31	Interest Inc	Net Int. Income	EPS GAAP	EPS Core
FY17	$121.3	$69.7	$0.66	$2.26
FY18	$130.9	$46.1	$(3.18)	$2.06
Fy19	$123.5	$26.2	$0.31	$0.89
Fy20E	$132.3	$34.5	$0.49	$0.83

LARGEST SHAREHOLDERS

BlackRock, Inc.	3,964,906
The Vanguard Group, Inc.	1,885,622
American Money Management Corp.	1,403,848
State Street Global Advisors, Inc.	753,316
Renaissance Technologies Corp.	674,649
Wolverine Asset Management	612,387
Ellington Management Group, LLC	532,908
Geode Capital Management, LLC	530,333
Goldman Sachs Group	509,277
Teachers Insurance & Annuity	470,646

STOCK CHART

COMPANY DESCRIPTION

Arlington Asset Investment Corp. is an investment firm that focuses on acquiring and holding a levered portfolio of mortgage investments. The Company's mortgage investments generally consist of agency MBS and mortgage credit investments. The Company's agency MBS consist of residential mortgage pass through certificates for which the principal and interest payments are guaranteed by either a government sponsored enterprise (GSE), such as the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, or a U.S. government agency such as the Government National Mortgage Association. The Company's mortgage credit investments may include investments in mortgage loans secured by either residential or commercial real property or MBS collateralized by such mortgage loans which are referred to as non-agency MBS. The principal and interest of mortgage credit investments are not guaranteed by a GSE or government agency. Arlington Asset Investment Corp. is headquartered in McLean, 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 mortgage assets. 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 and as of Q419 began investing in mortgage credit investments which could potentially provide higher risk adjusted returns
- 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 Q419, its portfolio was substantially hedged at 83%, 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.
- Reported as of 12/31/19, the Company had $6.5M non-GAAP core operating income with $283 million net capital losses that should help reduce taxable income and therefore its future REIT distribution requirements
- 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 $7.86per share for both as of 12/31/19

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 0.90x to 1.10x is reasonable. Using this range, we arrive at a valuation range of ~$7.07 to ~$8.65 with a mid-point of ~$7.86 for AI. Also, considering current and 3-year historical trading ranges of AI and comps, we believe using a P /E multiple range of 8.0x to 10.0x is reasonable. Using this range on our FY19 EPS estimate, we arrive at a valuation range of ~$6.61 to ~$8.26 with a mid-point of $7.44.

BUSINESS OVERVIEW

Arlington Asset Investment Corp. is an investment firm that focuses on acquiring and holding a levered portfolio of mortgage investments, typically consisting of agency MBS and mortgage credit investments. The Company's portfolio of agency MBS consists of pass through certificates where the principal and interest are guaranteed by either government sponsored enterprise such as Fannie Mae and Freddie Mac or a U.S. government agency such as the Ginnie Mae. The Company's mortgage credit investments may include investments in mortgage loans secured by either residential or commercial real property or MBS collateralized by such mortgage loans which are referred to as non-agency MBS. The principal and interest of mortgage credit investments are not guaranteed by a GSE or government agency. As of Q4FY19, the Company's investment capital is allocated 86% to agency MBS and 14% to mortgage credit with the possibility of increasing that allocation to mortgage credit over time.

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 are generally taxable as ordinary income that are not eligible to be taxed as qualified dividends. However, a portion of such distributions may be designated as long-term capital gain dividends. Non corporate taxpayers may deduct up to 20% of dividends received by a REIT that are not designated as capital gain dividend 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 is an internally managed company and does not have an external investment advisor. The Company is headquartered in McLean, VA.

Exhibit 1: Arlington Asset Investment Capital Structure

(1) As of February 13, 2020
Source: Company Reports; Stonegate Capital Partners

INVESTMENT STRATEGY

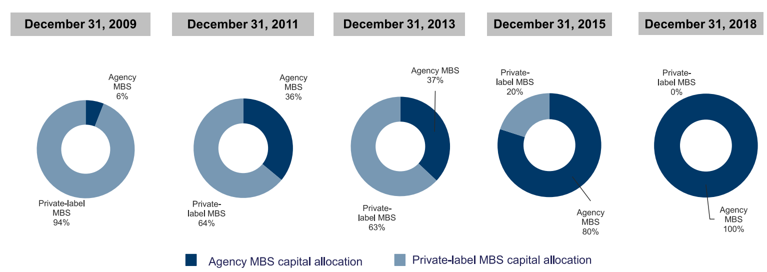
Arlington's investment strategy is focused on obtaining a high risk-adjusted return on capital. The Company starts its process by evaluating the rates of return that can be attained in each asset class and each individual security within an asset class. Next, the Company evaluates the set of opportunities 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 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 12/31/19.

Exhibit 2: Investment Portfolio Historical Changes



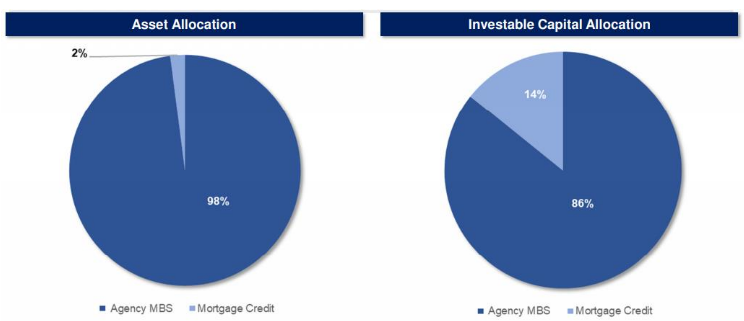
Source: Company Reports; Stonegate Capital Partners

Investments in MBS derive earnings from two ways: the first, is the spread between the interest income earned on the investments in mortgage backs securities and the costs of borrowing used to fund those investments. As the yield curve steepens, Arlington is able to benefit from an increased spread between the interest income and the cost of borrowing. This makes returns for AI highly dependent upon mortgage spreads. Arlington is able to mitigate some of the impacts of the yield curve through hedging activities, explained later. In addition, Arlington is able to increase returns from a widening mortgage spread through the use of increased leverage. The second, is the Company's ability to grow its investment portfolio and thus derive increased cash flows from the spreads. The Company's investment team is charged with deciding which investments provide a meaningful risk-adjusted return to add to the portfolio.

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.

In Q4 2019, Arlington began deploying capital into mortgage credit investments, which are mortgage loans secured by residential or commercial property or MBS collateralized by such mortgage loans. The Company is currently focused on tailored or directly originated opportunities with attractive and protective credit characteristics. The Company is currently leveraging their network of partnerships with specialists in their fields with extensive experience originating, underwriting, and servicing these loans. Arlington believes the diversification into this market will ultimately help reduce risk, reduce leverage, and enhance returns while reducing prepayment, volatility and repo financing exposures for the Company. We expect this segment to attribute higher risk adjusted returns to the company, with Arlington noting an expected 11% to 16% leveraged return range in comparison to 9%-11% leveraged returns for agency MBS.

Exhibit 3: Investment Portfolio Allocation 12/31/19



Source: Company Reports; Stonegate Capital Partners

FINANCING STRATEGY

As mentioned, the Company uses leverage to finance a portion of its mortgage investment 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 16 counterparties with access to 19 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 agency 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 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 at the end of the repo term. Under the repo agreements, the Company typically pays a floating rate based on benchmark interest rates such as 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 4: 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 5: 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 Q419, 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 Q419, the Company had ~1.6M shares remaining on its preferred ATM agreement.

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 a were 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 repo 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 agency 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 agency 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.

Credit Risk – Arlington's mortgage credit investments consist of residential or commercial mortgage loans and non agency MBS collateralized by such loans and are subject to delinquency, foreclosure and loss.

RECENT RESULTS

At Q419, the Company's book value was $7.86/ common share compared to $7.35/common share at Q319 end. The improvement in book value was driven primarily by the outperformance of mortgages relative to interest rate hedges as the spread between the yield in agency MBS and benchmark interest rates tightened meaningfully. Arlington declared a dividend of $0.225 per common share for Q419, equivalent to its Q319 dividend. The Company's economic return, measured as the change in book value per share pus common stock dividends declared, was 10% for the fourth quarter. Non-GAAP core operating income was $0.18/share for Q419, unchagned from the prior quarter, short of the quarterly dividend per share. Core operating income is a non-GAAP figure that captures the net swap interest costs and TBA dollar roll income, which are excluded from net interest income but shown as a gain or loss on derivatives for GAAP. We note that the figure is a better indicator of dividend capacity compared to GAAP income.

Exhibit 6: Non-GAAP Core Operating Income

(Unaudited, in thousands except per share amounts)	Q4 2019	Q3 2019	Q2 2019	Q1 2019
GAAP net interest income	$ 7,037	$ 4,692	$ 6,582	$ 7,917
TBA dollar roll income	132	923	1,995	1,420
Interest rate swap net interest income	2,126	4,445	3,769	4,747
Economic net interest income	9,295	10,060	12,346	14,084
Investment advisory fee income	82	—	—	250
Core general and administrative expenses	(2,140)	(2,797)	(3,207)	(3,603)
Preferred stock dividend	(774)	(774)	(774)	(278)
Non-GAAP core operating income	**$ 6,463**	**$ 6,489**	**$ 8,365**	**$10,453**
Non-GAAP core operating income per diluted common share	**$ 0.18**	**$ 0.18**	**$ 0.23**	**$ 0.32**
Weighted average diluted common shares outstanding	36,750	36,751	36,644	33,139

Source: Company Reports; Stonegate Capital Partners

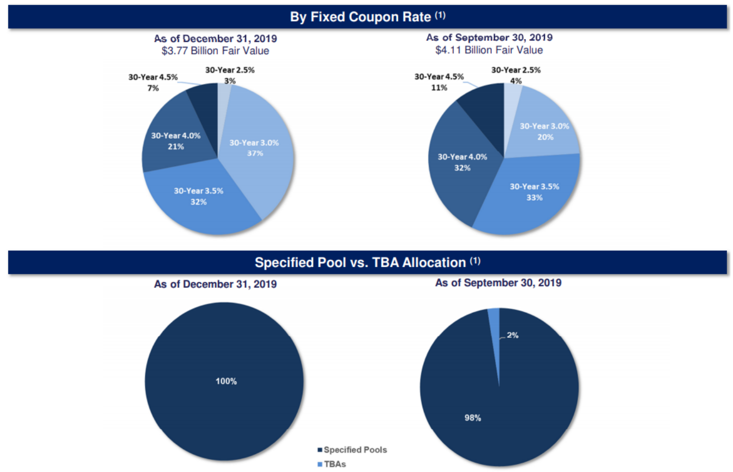
At Q419, the Company's "at risk" short term secured financing to investable capital ratio was 8.7 to 1, a decrease form 9.9 to 1 at Q319.

Also, for Q419, Arlington generated net interest income of $7.0M compared to net interest income of $4.7M in the Q319. From this, Arlington reported diluted GAAP net income of $0.72/share for Q419, compared to GAAP net loss of $0.23/share in the Q319.

The Company's actual constant prepayment rate for its agency MBS decreased to 12.11% in Q419 compared to 12.85% in Q319. The average agency MBS yield was 2.81% in Q419 versus 2.96% in Q319. Additionally, the Company's average cost of its repo agreements was 2.09% in Q419, compared to 2.46% in Q319.

As of 12/31/19, Arlington Asset Investment Corporation's portfolio totaled ~$3.847 billion, comprised of $3.768 billion of agency MBS and $79 million in mortgage credit investments.

Exhibit 7: Agency MBS 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 fourth quarter of 2019, the Company increased its allocation to 3.0% 30-year securities while decreasing its exposure to 4.0% and 4.5% 30-year, while keeping 2.5% and 3.5% 30 years constant. 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 in Q3 2019, which has continued through Q4.

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 12/31/19, the Company had $14.6M net operating loss and $283M net capital loss carryforwards that are available to 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 8: Hedging Portfolio Summary

		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	$ 2,050,000	1.77%	1.92%	0.15%	1.6	(1.4)
3 to less than 7 years to maturity	510,000	1.61%	1.92%	0.31%	6.0	(5.6)
7 to less than 10 years to maturity	400,000	2.24%	1.91%	(0.33%)	9.5	(8.9)
10 or more years to maturity	25,000	2.96%	1.90%	(1.06%)	28.2	(24.5)
Total / weighted average	**$ 2,985,000**	**1.81%**	**1.92%**	**0.11%**	**3.6**	**(3.3)**

Q4 2019 Interest Rate Swap Activity

		WEIGHTED-AVERAGE:	
	Notional	**Fixed Pay Rate**	**Years to Maturity**
Early terminations	$ (100,000)	3.08%	8.9
Additions	210,000	1.73%	9.8
Maturities	(125,000)	1.10%	-
Net impact to swap book	**$ (15,000)**	**(0.02%)**	**0.2**

Source: Company Reports; Stonegate Capital Partners

(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.*

We also note that the Company's average interest rate swap notional to repo ratio remained relatively unchanged at 79% in Q419 compared to 80% in Q319 (Exhibit 8). Also, the Company's weighted average net receive rate of its interest rate swap agreements decreased to 0.24% for Q419 vs. 0.52% during the third quarter of 2019. And in addition to interest rate swap agreements, Arlington may also hold exchange-traded U.S. Treasury note future short positions. As of December 31, 2019, the Company held no U.S. Treasury note futures.

Exhibit 9: Portfolio Weighted Average Statistics

(dollars in thousands, except cost basis per $100 UPB)	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Specified agency MBS:				
Constant prepayment rate	12.11%	12.85%	10.16%	7.55%
Coupon rate	3.53%	3.86%	4.09%	4.13%
GAAP asset yield	2.81%	2.96%	3.21%	3.36%
GAAP amortized cost basis	$ 3,997,570	$ 3,844,404	$ 4,025,014	$ 3,998,040
GAAP amortized cost / $100 UPB	$ 103.11	$ 103.71	$ 104.34	$ 104.59
Repurchase agreements:				
Financing rate	(2.09)%	(2.46)%	(2.64)%	(2.68)%
Balance	$ 3,736,255	$ 3,609,519	$ 3,728,583	$ 3,680,429
Interest rate swaps:				
Fixed pay rate	(1.82)%	(1.82)%	(2.10)%	(2.11)%
Variable receive rate	2.06%	2.34%	2.60%	2.70%
Net receive (pay) rate	0.24%	0.52%	0.50%	0.59%
Notional amount	$ 2,941,538	$ 2,888,011	$ 2,895,663	$ 3,095,411
Interest rate swap notional to repo ratio	79%	80%	78%	84%
Economic cost of funds (1)	(1.86)%	(1.98)%	(2.24)%	(2.16)%
TBA dollar rolls:				
Implied net interest spread	0.58%	0.93%	0.84%	1.05%
Implied cost basis	$ 90,221	$ 396,857	$ 947,965	$ 538,885
Total agency MBS GAAP amortized cost basis	**$ 4,087,791**	**$ 4,241,261**	**$ 4,972,979**	**$ 4,536,925**
Specified agency MBS allocation	**98%**	**91%**	**81%**	**88%**
TBA dollar roll allocation	**2%**	**9%**	**19%**	**12%**
Core net interest margin / return on assets (2)	**1.02%**	**1.07%**	**1.10%**	**1.35%**

(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 10: Interest Rate Sensitivity Analysis

Interest Rate Sensitivity as of December 31, 2019 (3)

	-100 bps	-50 bps	As of 12/31/2019	+50 bps	+100 bps
Common Stockholders' Equity	**$ 278,504**	**$ 292,825**	**$ 288,397**	**$ 260,819**	**$ 214,052**
Percentage Change	**-3.4%**	**1.5%**	**-**	**-9.6%**	**-25.8%**

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

Agency MBS Spread Sensitivity as of December 31, 2019 (1)

	-25 bps	-10 bps	As of 12/31/2019	+10 bps	+25 bps
Common Stockholders' Equity	**$ 336,984**	**$ 307,832**	**$ 288,397**	**$ 268,962**	**$ 239,810**
Percentage Change	**16.8%**	**6.7%**	**-**	**-6.7%**	**-16.8%**

(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 expected to remain relatively flat in 2020 with some fluctuations quarterly. Although unemployment remains relatively low, the job market is expected to start to slow as US economic growth shows some strain, with GDP growth decreasing to ~1.2% this year and then increasing again to 1.6% in 2021. 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 increase to 4.0% for 2020 and remain stable through 2021.

The Federal Reserve implemented three rate cuts in 2019. While it is possible for rates to continue to decrease in 2020, consensus wording from the Federal Reserve has implied they are likely to hold rates at current levels for the near term. However, based on current federal funds futures prices, market participants expect the Federal Reserve to lower interest rates by 25 basis points two times in 2020.

Given the macroeconomic environment, the housing markets are expected to remain favorable in throughout 2020. Inventory of recent homes coming onto the market is decreasing in 2020 with inventories expected to increase in 2021. As interest rates remain low and housing starts expected to decrease slightly in 2020 we expect to the housing market to remain healthy through 2020.

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 2/18/20.

Exhibit 11: MBA Economic Forecast

	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2019	2020	2021	2022
Housing Measures																
Housing Starts (SAAR, Thous)	1,213	1,256	1,282	1,441	1,330	1,290	1,310	1,320	1,320	1,340	1,350	1,350	1,298	1,313	1,340	1,383
Single-Family	864	847	894	973	920	900	920	930	940	960	960	960	894	918	955	983
Two or More	349	409	388	468	410	390	390	390	380	380	390	390	404	395	385	400
Home Sales (SAAR, Thous)																
Total Existing Homes	5,207	5,287	5,427	5,414	5,512	5,418	5,487	5,521	5,571	5,639	5,651	5,681	5,334	5,484	5,635	5,737
New Homes	669	661	699	723	746	731	739	745	754	762	762	766	688	740	761	768
FHFA US House Price Index (YOY % Change)	5.7	5.2	4.6	4.4	4.2	4.0	3.7	3.5	3.2	3.0	2.8	2.6	4.4	3.5	2.6	2.2
Median Price of Total Existing Homes (Thous $)	253.0	276.8	276.9	272.3	272.1	275.1	276.0	272.0	276.9	281.1	284.3	288.4	269.7	273.8	282.7	290.8
Median Price of New Homes (Thous $)	312.3	321.2	317.0	325.2	325.2	326.3	327.2	327.9	334.1	335.0	336.0	337.4	318.9	326.6	335.6	340.8
Interest Rates																
30-Year Fixed Rate Mortgage (%)	4.4	4.0	3.7	3.7	3.6	3.7	3.7	3.7	3.8	3.8	3.8	3.8	3.7	3.7	3.8	4.1
10-Year Treasury Yield (%)	2.7	2.3	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0	1.8	1.9	2.0	2.3
Mortgage Originations																
Total 1- to 4-Family (Bil $)	325	501	605	637	517	532	514	426	365	486	504	435	2,068	1,989	1,790	1,799
Purchase	228	355	375	314	257	364	382	321	260	378	390	330	1,272	1,324	1,358	1,370
Refinance	97	146	230	323	260	168	132	105	105	108	114	105	796	665	432	429
Refinance Share (%)	30	29	38	51	50	32	26	25	30	23	23	25	38	33	24	24
Mortgage Debt Outstanding																
1- to 4-Family (Bil $)	10,362	10,446	10,556	10,659	10,758	10,860	10,966	11,062	11,153	11,255	11,358	11,453	10,659	11,062	11,453	11,830

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				Annual		
Name	Ticker	Price (1)	S/O	Mrkt Cap	Assets	BV/sh	BV/sh (2)	2018	2019	2020	2019	2020E	P/BV	P/TBV	Dividend (4)	Dividend Yield (%)	Leverage Ratio (5)
Annaly Capital Management, Inc.	NLY	$ 9.98	1,430.3	$ 14,274.6	130,295.1	$ 9.66	$ 9.59	$ 0.08	$ (0.31)	$ 1.08	n/a	9.2x	1.03x	1.04x	$ 1.05	10.5%	7.16x
AGNC Investment Corp.	AGNC	$ 19.22	540.9	$ 10,396.9	113,082.0	$ 18.69	$ 17.72	$ 0.22	$ 0.80	$ 2.30	24.2x	8.3x	1.03x	1.08x	$ 2.00	10.4%	8.10x
Two Harbors Investment Corp.	TWO	$ 15.42	272.9	$ 4,208.7	35,921.6	$ 14.63	$ 14.63	$ 0.28	$ 0.72	$ 1.41	21.3x	10.9x	1.05x	1.05x	$ 1.67	10.8%	6.10x
Capstead Mortgage Corporation	CMO	$ 8.32	96.2	$ 800.3	11,520.0	$ 8.70	$ 8.70	$ 0.34	$ (0.24)	$ 0.57	n/a	14.5x	0.96x	0.96x	$ 0.47	5.6%	9.69x
Anworth Mortgage Asset Corporation	ANH	$ 3.66	98.8	$ 361.8	4,938.6	$ 4.63	$ 4.63	$ (0.04)	$ (0.35)	$ 0.42	n/a	8.7x	0.79x	0.79x	$ 0.43	11.7%	7.55x
Orchid Island Capital, Inc.	ORC	$ 6.11	65.1	$ 397.6	3,882.1	$ 6.27	$ 6.27	$ (0.53)	$ 0.27	$ 0.83	22.7x	7.4x	0.97x	0.97x	$ 0.96	15.7%	8.77x
Ellington Residential Mortgage REIT	EARN	$ 10.98	12.5	$ 136.8	1,489.1	$ 12.91	$ 12.91	$ 1.19	$ (1.47)	$ 1.00	n/a	11.0x	0.85x	0.85x	$ 1.18	10.7%	8.07x
							Average	$ 0.22	$ 0.60	$ 1.09	22.7x	10.0x	0.96x	0.96x	1.11x	10.8%	7.9x
							Median	$ 0.22	$ 0.72	$ 1.00	22.7x	9.2x	0.97x	0.97x	1.05x	10.7%	8.1x
Arlington Asset Investment Corp.	**AI**	**$5.90**	**36.8**	**$ 217.2**	**4,000.1**	**$ 7.86**	**$ 7.86**	**$ 2.06**	**$ 0.89**	**$ 0.83**	**6.7x**	**7.1x**	**0.75x**	**0.75x**	**$ 1.05**	**17.8%**	**11.17x**

(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 0.75x and has a dividend yield of 17.8%. Considering current and historical trading ranges of comps and AI, as well historical industry multiples, we believe using a P/TBV multiple range of 0.90x to 1.10x is reasonable. Therefore, using the 0.90x to 1.10x P/TBV range, we arrive at a valuation range of ~$7.07 to ~$8.65 with a mid-point of ~$7.86.

Price / Earnings

Based on our FY20 EPS estimate, Arlington is trading a P/E ratio of 7.1x vs. median comparables at 9.2x. Considering current and 3-year historical trading ranges of AI's comps, we believe using a P /E multiple range of 8.0x to 10.0x is reasonable. Using the range on our FY20 EPS estimate, we arrive at a valuation range of ~$6.61 to ~$8.26 with a mid-point of ~$7.44.

Dividend Yield

Currently, Arlington Asset Investment Corp. is trading a dividend yield of 17.8% vs. median comps at 10.7%. 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 $0.89 falls below the current annual distribution estimate of $1.05/per share.

Conclusion

Given Arlington's higher than average dividend yield coupled with their higher than average leverage, we believe Arlington should trade in line to their comps. However, we note that given the size of the company they will continue to trade at a discount to larger, more liquid names in the space. With this, we feel a total valuation range of $6.61 to $8.65 is appropriate.

INCOME STATEMENT

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

	FY 2017	FY 2018	FY 2019	FY 2020E
Total Interest Income	121,248	130,953	123,478	132,321
Total Interest Expense	51,514	84,825	97,250	97,822
Net Interest Income	**69,734**	**46,128**	**26,228**	**34,499**
Investment Advisory Fee Income	-	-	332	-
Total investment gain (loss)	**5,874**	**(123,822)**	**2,197**	**-**
Total General and Administrative Expenses	18,570	13,370	15,015	13,900
(Loss) income before income taxes	**57,038**	**(91,064)**	**13,742**	**20,599**
Income tax provision (benefit)	39,603	733	-	-
Preferred stock dividend	251	590	2,600	2,600
Net (loss) income	**$ 17,184**	**$ (92,387)**	**$ 11,142**	**$ 17,999**
Basic EPS - GAAP	**$ 0.67**	**$ (3.18)**	**$ 0.31**	**$ 0.49**
Diluted EPS - GAAP	**$ 0.66**	**$ (3.18)**	**$ 0.31**	**$ 0.49**
Weighted average shares outstanding				
Basic	25,649	29,052	35,709	36,692
Diluted	26,011	29,052	35,833	36,816
Core Operating Income				
GAAP net interest income	69,734	46,128	26,228	34,499
TBA dollar roll income	21,291	20,929	4,470	-
Interest rate swap net interest	(17,334)	6,266	15,087	7,891
Economic net interest income	73,691	73,323	45,785	42,390
Investment advisory fee income	-	-	332	-
Core general and administrative expense	14,644	12,534	11,747	11,970
Preferred stock dividend	251	590	2,600	-
Core operating income	**$ 58,796**	**$ 60,199**	**$ 31,770**	**$ 30,420**
Core operating income/share	**$ 2.26**	**$ 2.06**	**$ 0.89**	**$ 0.83**
Weighted average diluted shares outstanding	26,011	29,269	35,833	36,816

BALANCE SHEETS

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

	FY 2017	FY 2018	FY 2019
Assets			
Cash and cash equivalents	$ 21,614	$ 26,713	$ 19,636
Interest receivables	12,546	13,349	10,663
Sold securities receivable	-	-	71,199
Agency MBS at fair value	4,054,424	3,982,106	3,768,496
Non-Agency MBS at fair value	76	24	33,501
Mortgage loans, at fair value			45,000
Derivative assets, at fair value	763	438	1,417
Deferred tax asset-net	800	-	-
Deposits	59,103	61,052	37,123
Other assets	11,203	15,768	13,079
Total Assets	**$ 4,160,529**	**$ 4,099,450**	**$ 4,000,114**
Liabilities			
Repurchase agreements	$ 3,667,181	$ 3,721,629	$ 3,581,237
Interest payable	4,418	4,646	4,666
Accrued compensation and benefits	5,015	3,732	3,626
Dividend payable	17,550	11,736	8,494
Derivative liabilities, at fair value	4,833	6,959	8
Other liabilities	1,335	2,200	507
Long-term unsecured debt	73,880	74,104	74,328
Total Liabilities	**3,774,212**	**3,825,006**	**3,672,866**
Shareholders' Equity			
Preferred Stock	7,108	8,245	37,214
Common Stock	281	305	368
Additional paid in capital	1,974,941	1,997,876	2,049,292
Accumulated deficit/retained earnings	(1,596,013)	(1,731,982)	(1,759,626)
Total Shareholders Equity	**386,317**	**274,444**	**327,248**
Total Liabilities & Shareholders Equity	**$ 4,160,529**	**$ 4,099,450**	**$ 4,000,114**
Book value per common share	$ 13.43	$ 8.71	$ 7.86
Tangible book value per common share	$ 13.40	$ 8.71	$ 7.86

CORPORATE GOVERNANCE

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:

Daniel E. Berce – *Chairman*

Anthony P. Nader, III - *Director*

Melinda H. McClure – *Director*

David W. Faeder – *Director*

J. Rock Tonkel, Jr. – *Director*

Ralph S. Michael, III – *Director*

RECENT NEWS

February 13, 2020 – Arlington declares a Q120 dividend on its preferred stock

January 10, 2020 -- Company files a shelf registration in the amount of $750 million

December 13, 2019 -- Company declares a dividend of $0.225 per share on its common stock for Q4 2019

December 3, 2019 – Arlington declares Q419 dividends on its preferred stock

September 17, 2019 – Arlington declares a dividend of $0.225 per share on its common stock for Q319

September 5, 2019 – Arlington declares Q319 dividend on its preferred stock

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

June 6, 2019 – The Company announces that Eric Billings will retire as Executive Chairman on December 31, 2019

May 16, 2019 – Arlington declares Q219 dividend on its preferred stock

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 –Arlington declares Q119 dividend on its preferred stock

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.

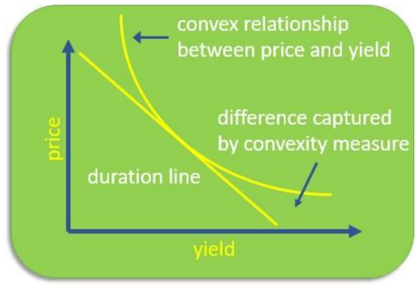
Interest rate swap – This is an agreement between two counterparties where one stream of future interest payments is swapped in exchange for another based on a specific principal amount (notional amount). Interest rate swaps typically involve the exchange of a variable interest rate for a fixed interest 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.

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CONTACT INFORMATION

Arlington Asset Investment Corp.
Richard Konzmann
6862 Elm Street Suite 320
McLean, Virginia 22101
Phone: 703-373-0200
www.arlingtonasset.com

Investor Relations
Stonegate Capital Partners
8201 Preston Rd. Suite 325
Dallas, Texas, 75225
Phone: 214-987-4121
www.stonegateinc.com