Recent events regarding Silvergate, Signature and Silicon Valley banks have shaken our financial markets. The Imperial team wanted to give an update to our investors:

- On March 8th, Silicon Valley Bank ("SVB") revealed in its SEC filings that it had been forced to sell $21 billion of low yield, fixed income securities in its portfolio at a loss of $1.8 billion. The reason that SVB and other regional banks were rocked with volatility late last week was due to their lack of interest rate hedging and proper risk management practices.
- When banks receive deposits from clients, the banks invest this money in government approved, high credit quality fixed income assets. Silicon Valley Bank received billions of dollars in deposits during the 2019-2021 period when interest rates were low and Silicon Valley tech firms were booming. SVB invested its tech member's deposits in low yield, long duration, fixed income assets without properly hedging the interest rate risk they were taking. At the time, interest rates were at historic lows so most of the securities SVB invested in were very low yielding. When the Federal Reserve began to rapidly increase interest rates, the value of these securities decreased just as quickly, which usually is not a problem. SVB simply needed to hold these securities to maturity and receive back their full principal and interest due.

- When Tech sectors began performing poorly, SVBs depositors (mainly tech venture companies and venture capital firms) began to withdraw their deposits and SVB was forced to sell these low interest rate, fixed income securities before they matured, causing the $1.8 billion in losses. When SVB's venture tech depositors learned about the losses SVB was taking, along with SVB's feeble attempt to raise $2.25 billion in capital via additional stock issuance, they withdrew $42 billion in deposits on Thursday, condemning the bank to insolvency.
- A similar series of events occurred at Silvergate and Signature Bank whose participation in the cryptocurrency sectors which boomed in the late 2010's and collapsed with tech stocks caused the same situation, Signature & Silvergate were forced to sell low yield, fixed income securities at losses to meet depositor withdrawals.
- What will the effect of these events be? The lasting effects of the collapse of SVB, Silvergate and Signature bank and yet to be seen. Restrictions on liquidity ratios at banks along with risk management legislation will likely be passed by congress in response to the gross mismanagement of risk at these otherwise large and "sophisticated" institutions.

- How does it affect Imperial Fund and Non-QM? Fixed income investors (especially banks) are now being forced to recognize the importance of high yield, short duration assets with strong credit characteristics like Non-QM RMBS. So far, we have seen significant improvement in mortgage backed security benchmarks, with VMBS up 3% from March 9th lows. Imperial has also observed lower credit spreads indicating increased demand for NonQM RMBS.
- Imperial Fund would like to assure investors and friends that none of the institutions Imperial is partnered with were adversely affected by these isolated bank failures and that Imperial Fund, along with its financing counterparties all have robust interest rate hedging policies that prevent situations like SVB Silvergate and Signature bank's failures from happening. Risk management is the most important aspect of any investment manager's responsibilities, Imperial Fund is monitoring the situation closely, and plans to take advantage of the increased demand for high yield, low duration mortgage-backed securities.

As always please feel free to reach out if you have any questions or concerns. We are always available!

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