AGNC INVESTMENT CORP.

(TICKER: AGNC)

GREEN LIGHT | YELLOW LIGHT | RED LIGHT

LBIR Recommendation

Stock Price: $17.02 (03/26/21)	Company Size: $9.04B	Author: Vineet Begwani
Company Rank: 726	Sector: Real Estate	Industry: REIT - Mortgage

AGNC Investment Corp. is one of the largest mortgage REITs that primarily invests in agency residential mortgage-backed securities on a leveraged basis.

IN THIS FRESH LOOK WE'LL COVER:

- **Summary of the Business**
  AGNC predominantly invests in US Government guaranteed agency residential mortgage-backed securities (RMBS). It takes advantage of the safety of its investments to borrow money from the low-cost repo markets for short term, and invests in longer term RMBS with higher yields to boost its returns.
- **Recent Developments**
  AGNC announced an impressive set of financial numbers for 4Q and FY 2020. Earlier it had also announced a management transition.
- **Valuation**
  The stock trades at a dividend yield of 8.5%, which is very attractive given that investors seeking income are struggling to find high quality yields amid the near zero interest rate environment.
- **Conclusions/Recommendations**
  AGNC offers a safe and stable dividend income stream with a price appreciation potential. We rate AGNC a **"GREEN LIGHT"**.

Grab-and-Go™ THESIS

An investment in AGNC Investment Corp. is a play on the credit risk-free agency residential mortgage backed securities (MBS). AGNC is one of the largest residential mortgage REITs that is benefitting from conditions very well suited for agency MBSs. Its continued success depends upon its ability to fund its investments at the lowest costs, while maintaining appropriate levels of leverage on the investment portfolio.

Data as of 03/26/21 unless specified

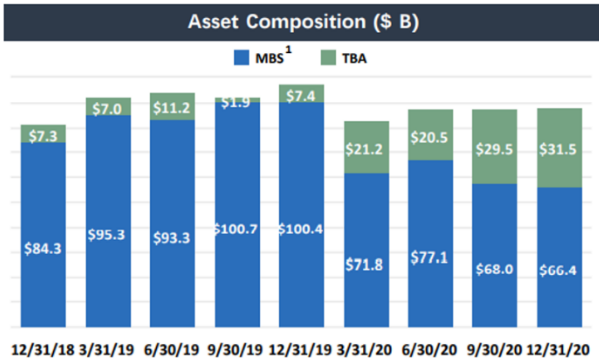
Enterprise Value:	$9.69B	Market Cap:	$9.04B	Book Value (per Share):	$17.51
YTD Return (%):	10.6%	Leverage Ratio:	8.5x	RSI:	60.69
Dividend per Share Fwd (TTM):	$1.44 ($1.48)	Dividend Yield Fwd (TTM):	8.46% (8.70%)	ROE (TTM):	-3.27%
52-Week High:	$17.03	52-Week Low	$8.82	200-day Moving Avg.	$14.73
Taxable Income (Growth,YoY):	$745M (20.2%)	CFO	$1.75B	FCF	$1.75B

Insider Transactions: Insiders have bought 192,937 shares of AGNC in the past 12 months.

SUMMARY OF BUSINESS

AGNC Investment Corp. (AGNC) is a Bethesda, Maryland headquartered internally-managed real estate investment trust (REIT) that provides private capital to the US housing market. It predominantly invests in agency residential mortgage-backed securities (RMBS) which are guaranteed by US Government sponsored entities, such as Fannie Mae, Freddie Mac, or Ginnie Mae. AGNC funds these low-risk investments primarily through collateralized borrowings structured as repurchase agreements, a portion of which is done through its wholly-owned captive broker-dealer subsidiary, Bethesda Securities. It also uses TBA dollar roll transactions (To-Be-Announced forward contracts to buy MBS on a specific future date) as a means of synthetically financing its agency RMBS investments.

AGNC also invests in housing, mortgage or real estate assets that are not guaranteed by a US Government entity. However, these investments form a very small part of its total portfolio, which currently encompasses assets worth $97.9 billion, comprising of $65.1 billion of Agency RMBS, $31.5 billion of TBA securities, and $1.3 billion of Credit Risk Transfer (CRT) and non-Agency securities.



Note 1: MBS includes CRT securities

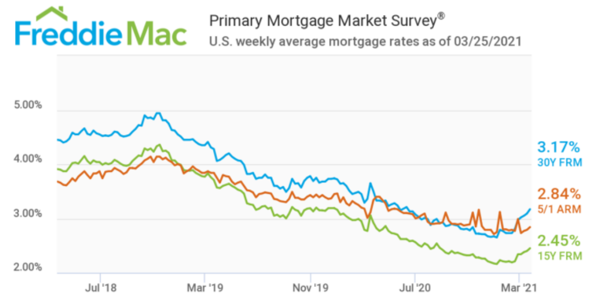
Source: 4Q20 Investor Presentation

Macro Conditions are Ideal for Mortgage REITs such as AGNC

As is typical with mortgage REITs, AGNC uses borrowed money to boost its return. The company takes advantage of its low default-risk portfolio to borrow large amounts of lower interest rate short-term debt from the highly liquid and large repo market. It then invests the borrowed money in longer-term MBSs, which typically have higher yields and thus locks in a positive interest spread.

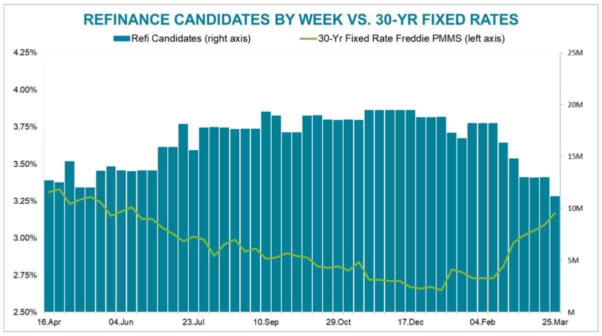
Interest rates have remained incredibly low in the aftermath of the pandemic (currently at around 0%-0.25%), and has resulted in significant reduction in cost of funds and improvement in net interest spreads. Going forward, the Federal Reserve (Fed) has stated that interest rates will continue to be low in the 0%-0.25% range, for the rest of 2021, and that it doesn't intend to hike the rates at least for the next couple of years. This essentially implies that the AGNC's cost of fund will continue to remain low for at least the next two years.

However, mortgage REITs such as AGNC face the risk of mortgage prepayments, due to the prevailing low mortgage rates, which consequently have a negative impact on the asset yields. As a matter of fact, the 30-year mortgage rates fell from nearly 5% in 2018 to historically low 2.67% at the end of December 2020, tempting borrowers who availed mortgage loans at higher rates to refinance their loans, and thus caused the yields on these loans to fall.



Source: Freddie Mac

Nonetheless, the improving economic outlook and the possibility of stimulus spending driving up inflation have caused the mortgage rates to trend higher in recent weeks, and as a result the number of borrowers opting to refinance their mortgage loans has come down to the lowest levels seen in over a year. This again is a key positive for mortgage REITs such as AGNC.



Source: Black Knight

Moreover, the Fed has remained committed to keep the MBS market stable, as it had purchased ~\$1.5 trillion of Agency RMBS during 2020 amid the pandemic led volatility. In fact, the Fed held ~30% of all outstanding Agency RMBS at the end of 2020 and continues to purchase \$40 billion in mortgage-backed debt monthly.

LB•LOGIC The current conditions are well suited for mortgage REITs as their borrowing costs are at historic lows, mortgage rates have started to trend higher and the Fed continues to stabilize MBS markets with its large-scale MBS purchases. We believe AGNC, being one of the largest mortgage REITs, is well positioned to benefit from these conditions.

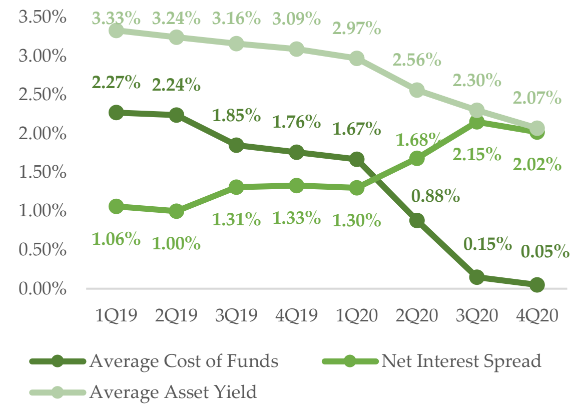
RECENT DEVELOPMENTS

Supported by strong tailwinds from the attractive macro environment, AGNC's portfolio continued to perform well in 4Q20, generating 7.5% economic returns (combination of dividends and change in book value) for investors. The continued strength helped AGNC in lifting the overall economic return for the full year 2020 to 3.5%, which is impressive, considering the 23% book value decline in the first quarter of 2020 because of the pandemic led disruptions, and also the significant full year losses of many of its peers.

Review of 4Q20 Earnings Results: AGNC reported $1.37 per share in net income for 4Q20, a substantial improvement over $1.15 in 3Q20. However, the marked to market loss of $0.21 per share on its investments reduced the total comprehensive income to $1.16 per share for 4Q20.

On the costs front, the average repo funding cost declined 2 bps over the previous quarter to 38 bps for 4Q20. The quarter end funding cost was even lower at 24 bps as some of the higher cost, longer-term assets matured in the quarter. AGNC's strategy of reducing its on-balance sheet agency portfolio, while increasing its off-balance sheet TBA exposure in MBS, to benefit from the funding advantage in TBA dollar rolls yielded good results as the average implied funding cost of TBA securities was negative at 54 bps, and after accounting for 3 bps in periodic costs associated with interest rate swaps, played a large part in reducing the company's total cost of funds to 5 bps from 15 bps in 3Q20.

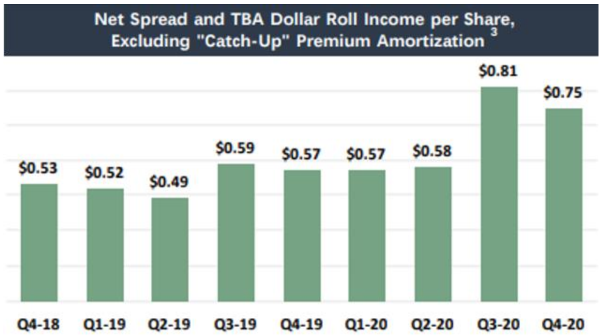
Nonetheless, the strong interest of investors in lower yield assets, coupled with some moderation in the funding advantage of the TBA dollar roll position toward the end of the quarter, as well as the increased prepayments of higher yield assets, negatively impacted AGNC's average asset yield, which came in at 2.07% for 4Q20 vs. 2.3% in the previous quarter. Also, the decreased asset yield offset some of the positive impact of the improvement in the company's cost of funds, and this led to a marginally lower net interest margin of 2.02% for the quarter vs. 2.15% in the previous quarter.



Source: AGNC

Going forward, AGNC anticipates the repo funding costs to come down into the 20s and low 20s range and stabilize there. It also anticipates the general trend of lower prevailing asset yields and moderation in the funding advantage of the dollar roll position to continue over the next several quarters, and as a result expects the net interest margin to be biased somewhat lower.

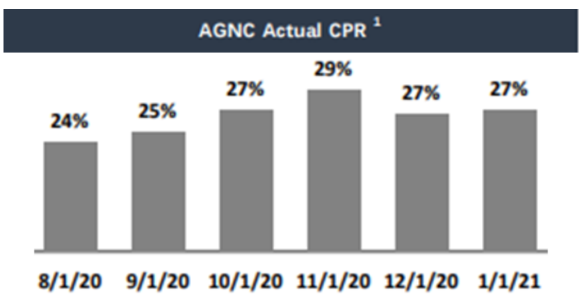
However, it still expects the net spread and dollar roll income to remain well above the early 2020 levels. For that matter AGNC's net spread and TBA dollar roll income was $0.75 per share and included $0.32 dollar roll income associated with its $33.8 billion average net long position in TBA securities at 4Q20 end.



Source: 4Q20 Investor Presentation

LB • LOGIC While the funding advantage on TBA dollar rolls is expected to moderate in the next several quarters, we believe the company will still be able to achieve net cost benefits from such contracts. This will help it to keep its overall funding costs low and maintain the interest spreads amid the lower prevailing asset yields.

Prepayments tracked higher during the quarter as mortgage rates continued to see declines. AGNC's actual prepayment speeds on the 30-year MBS portfolio increased to 27.6% for the quarter vs. 25% a year ago, while the forecasted life constant prepayment rates (CPRs) increased to 17.6% as of quarter end.



Source: 4Q20 Investor Presentation

Portfolio Performance: Portfolio performance was strong across the board, particularly in agency MBSs as their prices trended higher across the coupon stack. However, the lower coupon MBSs outperformed, given the high demand for such assets amid the low-rate environment, and were largely responsible for a 5.2% increase in the tangible book value to $16.71 per share during the quarter, which has further increased to [$17.51 per share] as of February 2021.

As a matter of fact, AGNC had decreased its exposure to the higher coupon assets and increased the lower coupon longer term (15 and 30 year) fixed-rate holdings, mostly financed via TBA contracts, during the quarter and benefitted as a result. Prepayments were also responsible for some of the decrease in higher coupon assets.

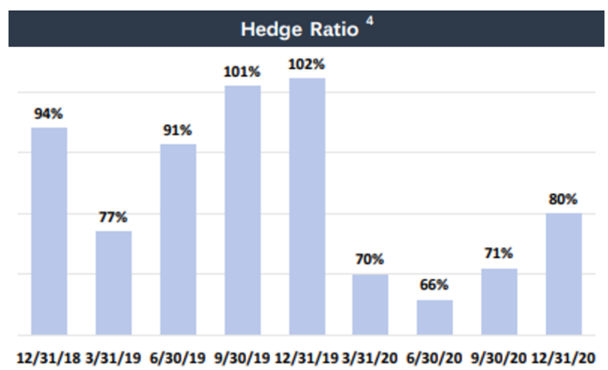
Risk Management: The company's hedge portfolio increased significantly to $67 billion from $60 billion in 3Q20 as it added meaningfully to its swaptions and short treasury positions mostly concentrated in the 10-year part of the yield curve.

HEDGE PORTFOLIO SUMMARY
As of December 31, 2020

($ in MM, except per share amounts)	Notional / Market Value 12/31/2020	Duration 12/31/2020 (*)	Net Hedge Gains / Losses Q4 2020 (*)	Net Hedge Gains / Losses Per Share Q4 2020
Interest Rate Swaps	$43,225	(5.1)	$276	$0.51
Payer Swaptions	10,400	(2.3)	(7)	(0.01)
U.S. Treasuries, Net Short	13,108	(8.1)	117	0.21
Total / Q4 2020 (*)	**$66,733**	**(3.6)**	**$386**	**$0.71**

Source: 4Q20 Investor Presentation

This resulted in the hedge ratio to increase to 80% at the quarter end from 71% in the prior quarter.

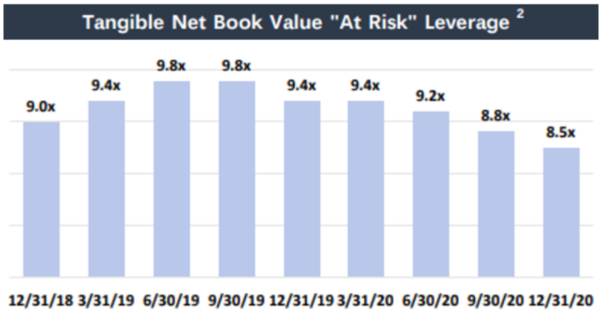


Source: 4Q20 Investor Presentation

Typically, a higher hedge ratio (with short treasury positions) provides valuation gains in a rising interest rate scenario, but the steepening yield curve and the stability of the MBS markets as a result of the Fed's actions resulted in modest valuation gains in interest rate swaps as well as fixed coupon agency MBSs in 4Q20 and benefitted AGNC from a book value gain perspective.

Balance Sheet: AGNC had a solid liquidity position at the end of 4Q20, with $5.4 billion in cash and unencumbered agency assets (excluding both unencumbered credit assets and assets held at its broker-dealer subsidiary, Bethesda Securities). Importantly, the unencumbered assets totaled 60% of the company's tangible net equity, which essentially means that the company has enough liquidity to mitigate any funding related risks.

AGNC's leverage ratio declined to 8.5x tangible book value from 8.8x at the end of the previous quarter, primarily due to the increase in the book value. This was also the lowest leverage levels AGNC has had in two years and implies that the company is now more insulated from any volatility in fixed income markets than it had been in the past two years.



Source: 4Q20 Investor Presentation

LB•LOGIC While leverage is fundamental to AGNC's investment strategy and helps it boost its returns, it also poses risks as the company may incur substantial losses if its borrowing costs increase or if the value of its investments decline. Nonetheless, in the current low interest rate scenario, we believe AGNC's 8.5x "at risk" leverage ratio is reasonable and manageable.

Shareholder Payouts: Unlike other REITs, AGNC does not really have a binding constraint around the tax side to payout nearly all of its income in dividends, given that it uses TBA dollar rolls to manage its taxable income. This provides it more flexibility with respect to its dividend policy.

Nonetheless, the company pays a healthy dividend of $0.12 per share every month to its shareholders, which was cut from $0.16 at the start of its second quarter in April 2020 amid the pandemic led market turmoil. Interestingly, AGNC had later admitted during the 2Q20 earnings call that the cut was probably unnecessary.

"When you look at our net spread and dollar roll income performance this quarter (2nd quarter) and realistically, the fact that it is still probably biased upward from here, you certainly could conclude that our dividend cut was unnecessary. And we made that move back in April just a few weeks after kind of the depths of the crisis." - **Gary Kain**, CEO

Nevertheless, AGNC's dividends are very safe considering the fact that it generates most of its cash flows from the coupon payments it receives from the highly safe agency RMBSs investments that are backed by US Government entities. This essentially implies that unless the US Government entities default, chances of which are almost negligible, AGNC will continue to generate most of its cash flows and thus continue paying the common stock dividends.

In addition to dividends, AGNC has also authorized a new stock repurchase program worth $1 billion in 4Q20 and returned $101 million to shareholders during the quarter.

AGNC has stated that it will continue to evaluate all possible options to increase shareholder value, including a dividend increase, going forward.

"We're going to continue to evaluate the dividend on a go-forward basis. And it is an important component of how AGNC takes care of our shareholders. But it, again, isn't the only piece. And it's the combination of the dividend, book value, which then translates to stock price, we'll continue to be active in buying back stock when it makes sense."

- **Gary Kain**, CEO on 4Q20 earnings call

LB•LOGIC AGNC's viewpoints on a) the dividend cut being unnecessary during 2Q20 and b) on evaluation of all possible options for increasing shareholder value during 4Q20, highlights the possibilities of a dividend increase or a share buyback in the near term. We think AGNC will buy back shares first, given that the book value is still at a small premium to its share price. Once the share price is in tandem with the book value, AGNC might increase its dividend payouts as well as it has the financial wherewithal to do so.

COMPANY MANAGEMENT

AGNC recently announced a management succession plan under which the current CEO and CIO, Gary Kain, will transition to the role of Executive Chairman of the company's Board. He will hand over the CEO role to Peter Federico, who currently serves as AGNC's President and COO, while the CIO role will go to Christopher Kuehl, who currently serves as the company's EVP, both effective 1st of July, 2021.

Also, AGNC board's current Chair and Lead Independent Director, Prue Larocca will become the Vice Chair, but will continue with her role as the company's Lead Independent Director.

LB•LOGIC The leadership transition from within the company's insiders is a gradual move and helps in maintaining continuity. Peter Federico, the new CEO is a seasoned old hand and having worked with the current CEO for over a decade, he understands AGNC's way of functioning inside out. Also, he is not burdened with multiple roles as the present CEO, who also has an added responsibility as the CIO, and this will allow him to focus and execute well on his core role.

Gary Kain's new role as the Executive Chairman will entitle him to preside over AGNC's board and stockholder meetings, albeit in consultation with Ms. Larocca. He has served as AGNC's Director and CEO since March 2016 and as the CIO since January 2009, and was previously the company's President from April 2011 until March 2018. Prior to joining AGNC, he worked with Freddie Mac in a variety of senior roles from 1995 to 2001, including as SVP of Investments and Capital Markets, SVP of Mortgage Investments & Structuring, VP of Mortgage Portfolio Strategy and as head trader in the Securities Sales & Trading Group.

Mr. Kain's direct and indirect shareholding in AGNC currently stands at 2,696,289 shares, which translates into an equity stake of 0.50%.

Peter Federico has served as AGNC's President and COO since March 2018 and was previously the company's EVP and CFO from July 2016 to March 2018, and SVP and Chief Risk Officer from June 2011 to July 2016. Prior to joining AGNC, Mr. Federico held a variety of senior roles at Freddie Mac since 1988, including as EVP and Treasurer and as SVP, Asset & Liability Management.

Mr. Federico owns 675,983 shares of AGNC, which roughly translates into a 0.13% stake.

Christopher Kuehl has served as AGNC's EVP since November 2016 and was previously the company's SVP from March 2012 to October 2016. Prior to joining AGNC, he worked with Freddie Mac since 2000, most recently serving as its VP of Mortgage Investments & Structuring. Previously, he was a Portfolio Manager with TeleBank/Etrade Bank.

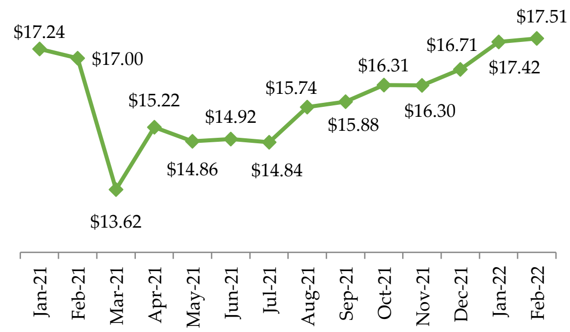
Mr. Kuehl owns 511,925 shares of AGNC, which roughly translates into an equity stake of 0.10%.

TREND ANALYSIS / VALUATION

Although AGNC's stock has seen a strong recovery from the pandemic lows, it still trades at a considerable discount to the pre-pandemic price levels. Currently the stock trades at a dividend yield of 8.5%, which is very attractive given that investors seeking income are struggling to find high quality yields amid the near zero interest rate environment.

Another important factor to consider is that the company's principal objective is to generate the best possible risk-adjusted total returns for its shareholders, and that also includes increasing its book value. As can be seen from the graph below, after the sharp pandemic led decline in early 2020, AGNC has managed to grow its book value almost every month.

Growing Book Value



Source: AGNC

Agency residential mortgage REIT stocks have historically traded very close to their book value and AGNC's current stock price of $17.02 is just under 3% shy of its last reported book value of $17.51, which we believe will further grow, given the highly favorable industry dynamics.

Also worth noting is that AGNC has a series of fixed to floating rate cumulative redeemable preferred shares. They offer lower dividend yields, but are still attractive and might appeal to risk-averse investors.

Preferred Stock	Coupon Rate	Current Price	Premium / (Discount) to Face Value	Current Dividend Yield	Call Date
Series C	7.000%	$25.93	3.7%	6.75%	10-15-22
Series D	6.875%	$25.82	3.3%	6.66%	04-15-24
Series E	6.500%	$24.92	-0.3%	6.52%	10-15-24
Series F	6.125%	$23.90	-4.4%	6.41%	04-15-25
Average Dividend Yield				6.58%	

Source: AGNC 10K, Yahoo Finance

CONCLUSION / RECOMMENDATION

AGNC is one of the two largest and best managed agency residential mortgage REITs (the other being NLY) that continues to benefit from a number of favorable market tailwinds. The company's monthly dividend payments are highly attractive primarily because of the safety and stability that comes from the cash flow protection from its Agency RMBS investments. Although higher prepayment activity due to the historically low mortgage rates have negatively impacted asset yields and put pressure on AGNC's earnings, the mortgage rates have begun to track higher, and this should benefit the asset yields, going forward.

Also, AGNC today is in a much stronger position with a superior balance sheet vs. other mortgage REITs. Its book value has the potential to grow further, which, we believe, will also aid in the growth of the stock's price.

Overall, from a safe and stable income generation perspective, and also the potential for capital appreciation, AGNC's stock represents a quality investment opportunity. We assign AGNC a **"GREEN LIGHT"** rating.

Stock Price & Dividend Yield Chart for AGNC Investment Corp. (AGNC)

Performance Data

FISCAL YEAR	2015	2016	2017	2018	2019	2020
ROE (%)	-	7.76%	9.1%	1.0%	6.0%	-3.27%
AVERAGE NET INTEREST SPREAD* (%)	1.48%	1.41%	1.45%	1.27%	1.18%	1.78%
EARNINGS (MILLIONS USD)	187	595	733	93	628	-362
YoY Growth (%)	NM	218%	23%	-87%	NM	NM
NET SPREAD & DOLLAR ROLL INCOME* (MILLIONS USD)	820	784	920	1,037	1,170	1,493
YoY Growth (%)	-31%	-18%	-17%	1%	-11%	22%

* Non-GAAP measure. Excludes "catch-up" premium amortization.

Valuation Data

FISCAL YEAR	2015	2016	2017	2018	2019	2020
SHARE PRICE (USD)	17.34	18.13	20.19	17.54	17.68	15.60
SHARES OUTSTANDING (MILLIONS)	337.47	331.05	391.32	536.34	540.94	537.90
MARKET CAP (MILLIONS USD)	5,852	6,002	7,901	9,407	9,564	8,391
DIVIDEND YIELD (%)	14.3%	12.7%	10.7%	12.3%	11.3%	10.0%

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