Chimera Investment Corp. (CIM)

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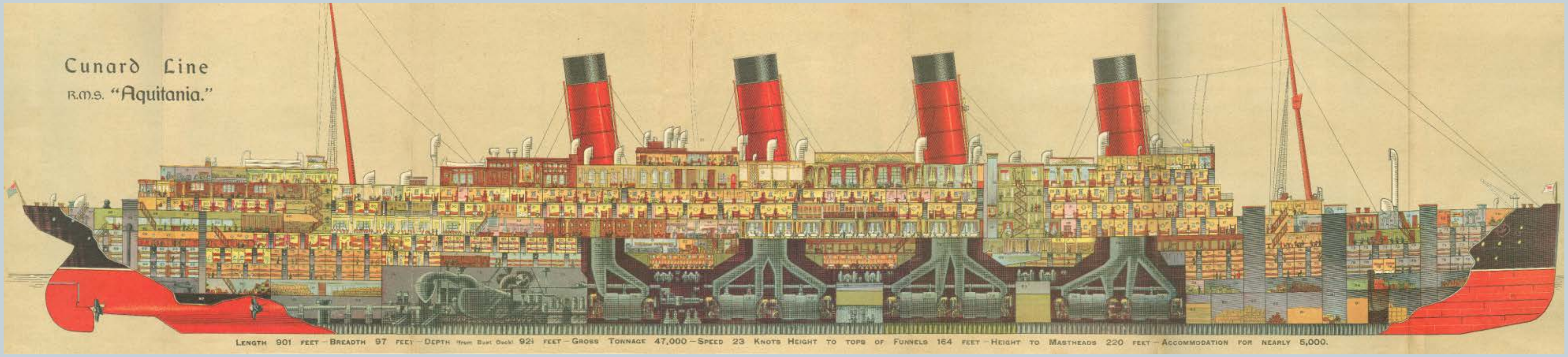

VALUEx Vail

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Aquitania Capital Management

- Aquitania Capital Management seeks to maximize risk-adjusted returns by identifying and capitalizing on securities trading at values meaningfully divergent from their respective fair values by integrating:
  - an intensive fundamental research discipline
  - a private equity valuation methodology
  - an event-oriented perspective
- Long-Biased, global investor across the capital structure
- Seeking dislocations where our counterparties are making uneconomic decisions
  - Asymmetric reward-to-risk situations with high conviction in a variant thesis through intensive independent research
  - Securities that are either being accidentally overlooked or actively avoided by most investors

Chimera Investment Corp.

- Chimera (CIM) is a mortgage REIT formed in 2007 and managed by FIDAC, a wholly-owned subsidiary of Annaly Capital Management (NLY)
  - CIM pays FIDAC a flat fee on equity of 1.5% (0.75% from 11/12 – resolution of accounting issues)
- Chimera primarily owns non-agency residential mortgage backed securities
  - Managing credit risk is the principal value driver
  - Financial leverage is significantly lower at 1.05x D/E @ 12/31/11 compared to agency mortgage REITS at 5.0x – 7.0x
  - Portfolio has great structural leverage from retaining subordinate and mezzanine tranches of re-REMIC securitizations done in 2009 – 2010
  - Non-agency portfolio was purchased at very low cost – over $2.4b discount on $2.6b fair value portfolio
- Chimera offers a highly-levered upside to an improving housing market without significant downside exposure
- Market Capitalization: $3.2b, P/B: 1.0x, Dividend Yield: 11.6%

Why Might CIM Be Mispriced?

- Financial statements are not current due to accounting restatement
- Potential NYSE delisting resulting from non-current financials
- Very limited communications with investors
- GAAP accounting treatment wildly deviates from cash economics
- Priced below $5 a share
- Trades with agency mREIT peer group although facing different set of risks and opportunities

Portfolio Structure

- Agency Portfolio $3.1b @ 12/31/11
  - Maintains REIT registration and '40 Act exemption under whole pool test
  - Financed with $2.6b of repos and $950MM of interest rate swaps @ 12/31/11
  - Leverage (D/E) 6.1x @ 12/31/11
  - NIM @ 12/31/11 of 1.7% equates to 11.9% ROE
  - Agency portfolio is highly liquid and constitutes dry powder for opportunistic investment
- Non-Agency Portfolio $2.6b @ 12/31/11
  - Focused on prime credit: Alt-A ARM, 30Y whole jumbo
  - Leverage (D/E) 0.1x @ 12/31/11
  - Portfolio primarily created in 2009-2011 at steep discounts and using draconian loss assumptions
  - Structural leverage created by 6 securitizations in 2009-2010 left CIM with subordinate and mezzanine tranches at very low cost basis
  - Management has opportunistically managed credit risk in 2009-2011 period
  - Credit performance has exceeded loss assumptions in 2009-2011
  - Unlevered ROE @ 12/31/11 of 13.3%

Accounting Issues

- Essence of accounting restatement is that GAAP treats investment grade (ASC 310-20) and non-investment grade securities (ASC 310-30 & ASC 325-40) differently
  - Impacts whether losses flow through income statement (310-20) or through income statement and other comprehensive income (loss) (310-30 & 325-40)
  - Book value, cash flow and taxable income are not impacted
  - Restating financials requires performing impairment tests on each CUSIP

Cash Economics

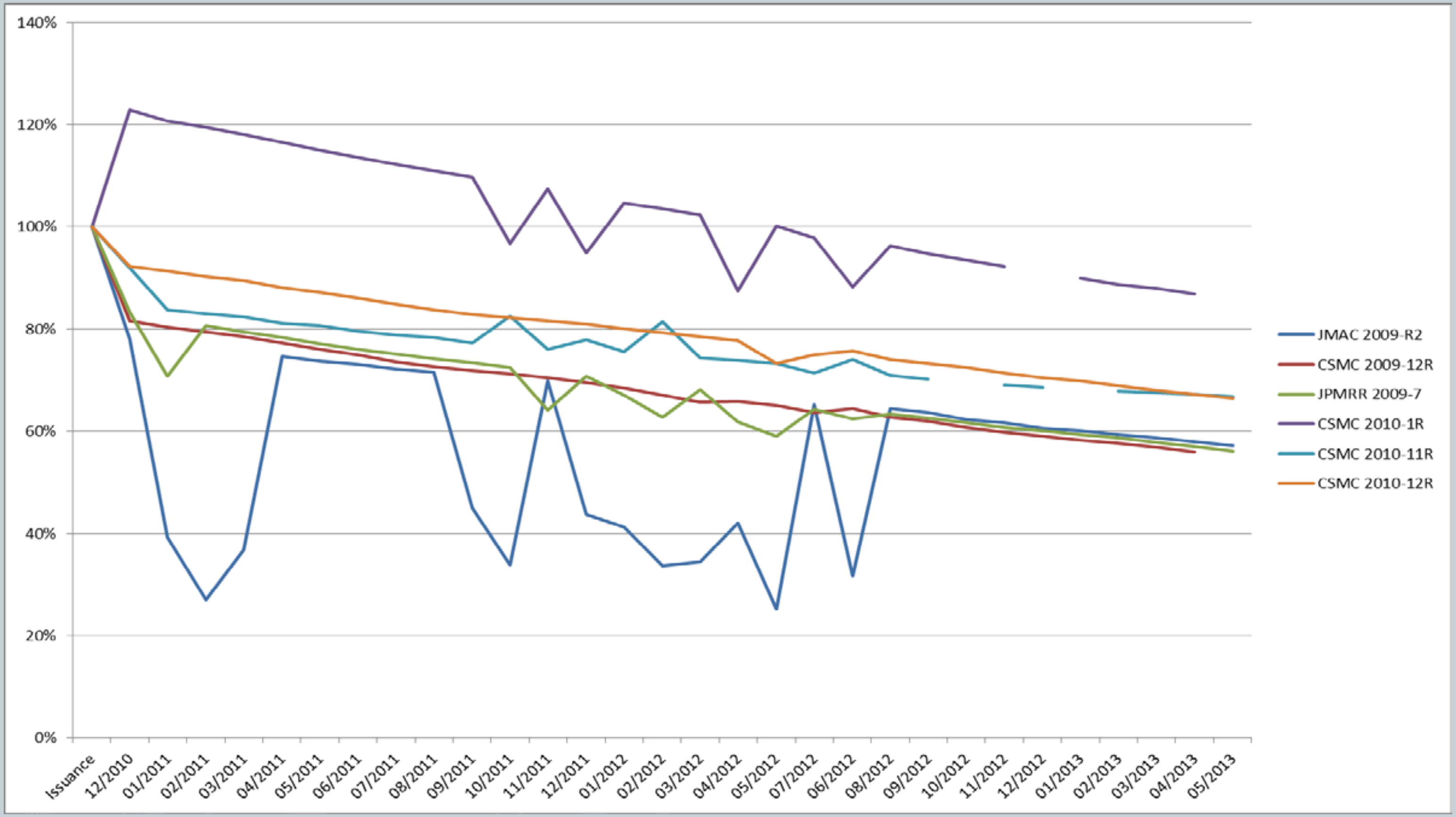
- Oxford English Dictionary definition of "Chimera":
  - (2) 'A thing that is hoped or wished for but in fact is illusory or impossible to achieve'
- Accounting bears little relation to cash economics
  - Book value likely understates economic value
    - Most non-agency securities held are private, non-rated and with no public market
    - Loss assumptions used are undisclosed but described as 'draconian'
    - Company estimates fair value then gets broker quotes – which often have a 20pt bid/ask
      - Management estimate are used if within broker quote
  - GAAP earnings do not relate to cash flows
    - GAAP earnings driven by large amortization of discounts on securities and Other Than Temporary Impairments
    - GAAP forces recognizing OTTI even if no deterioration in performance of loan
  - Taxable earnings likely exceed cash flows due to amortization of discounts
  - Dividends at 90% of taxable income likely consist of some principal payments

Inputs

- Book Value + Dividends grew 21.3% in 2012, 3.1% in 2011 and 11.3% in 2010
- Since we can't see CIM's portfolio, what can we look at to validate economics?
  - Monthly reports on the 6 securitizations show how the collateral is performing
  - ABX index pricing and price visibility into comparable underlying securities
  - Changes in housing market
  - Performance and commentary from other mREITs

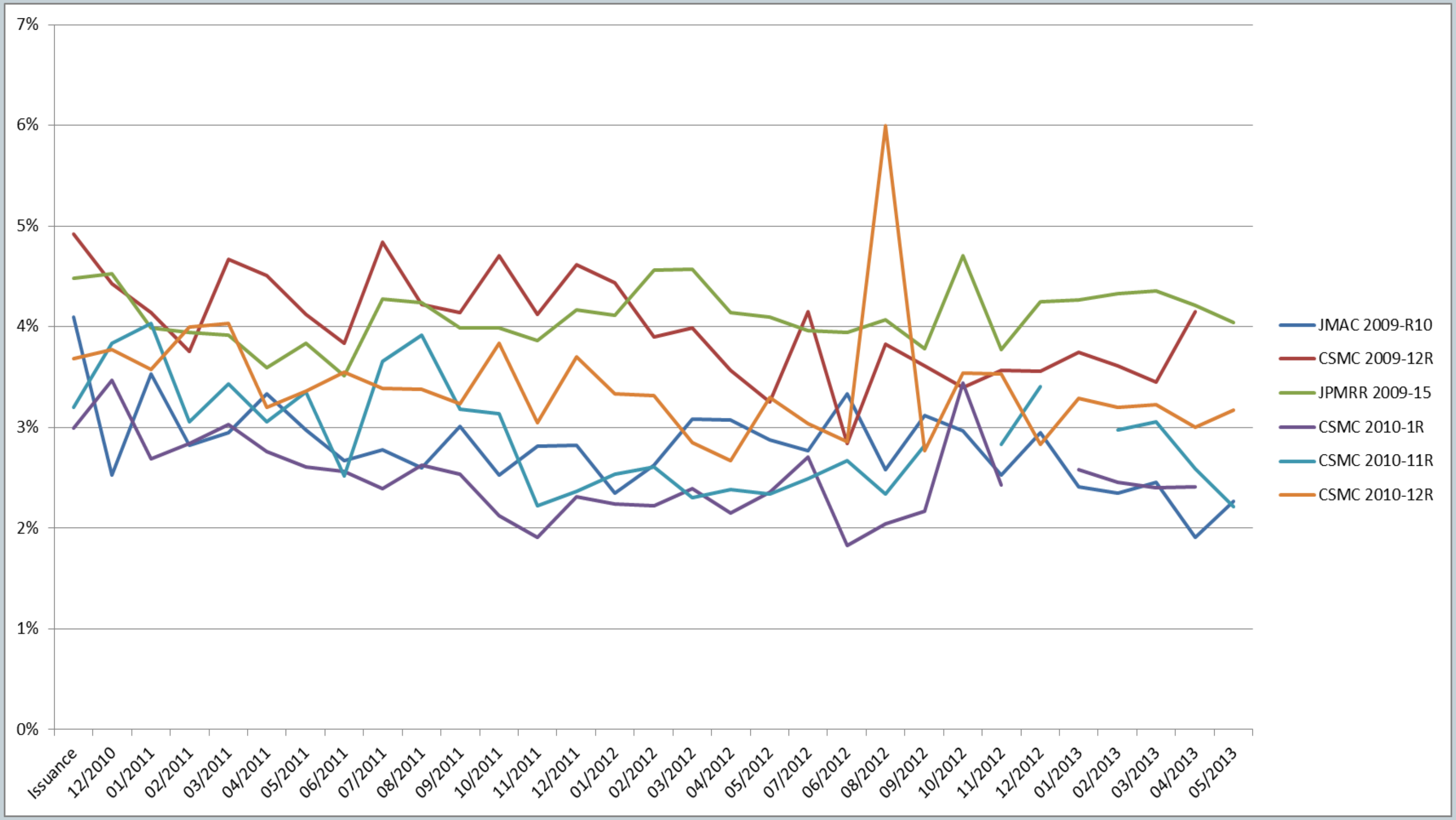
Securitization Collateral

- Pool Factor (Outstanding Balance as % of Issuance)



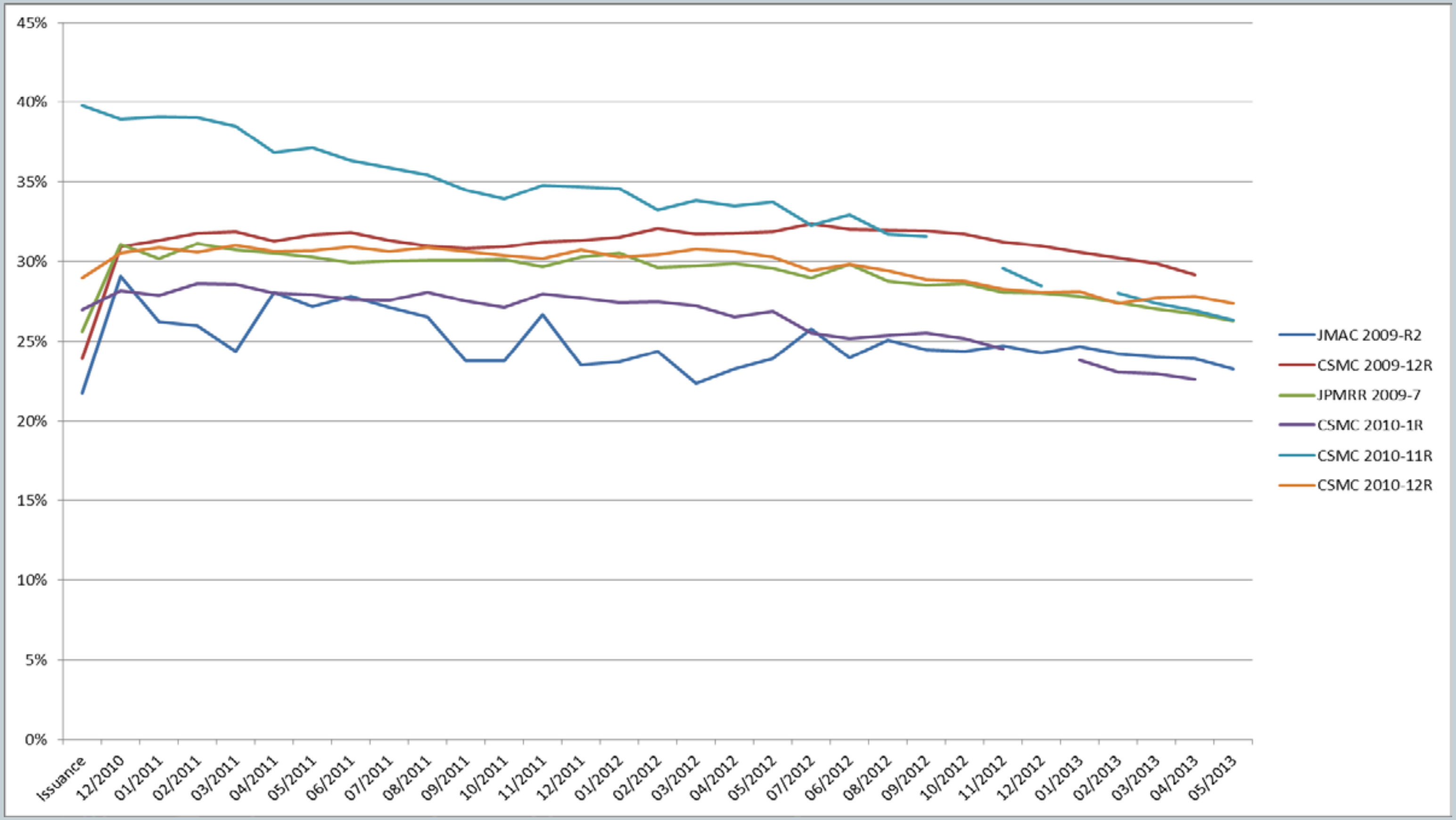
Securitization Collateral

- Delinquent 30 days %



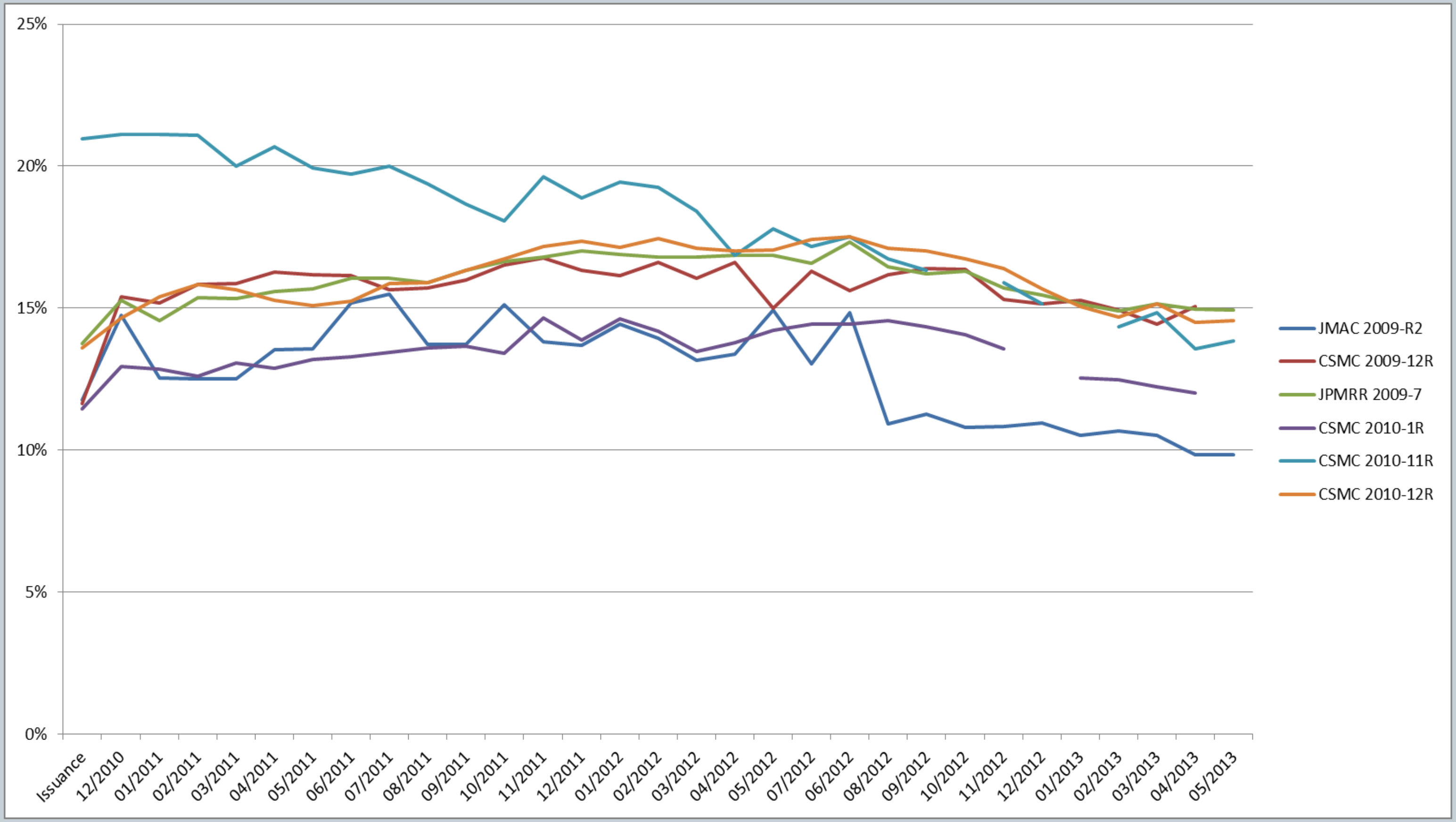
Securitization Collateral

- Delinquent 90+ Days %



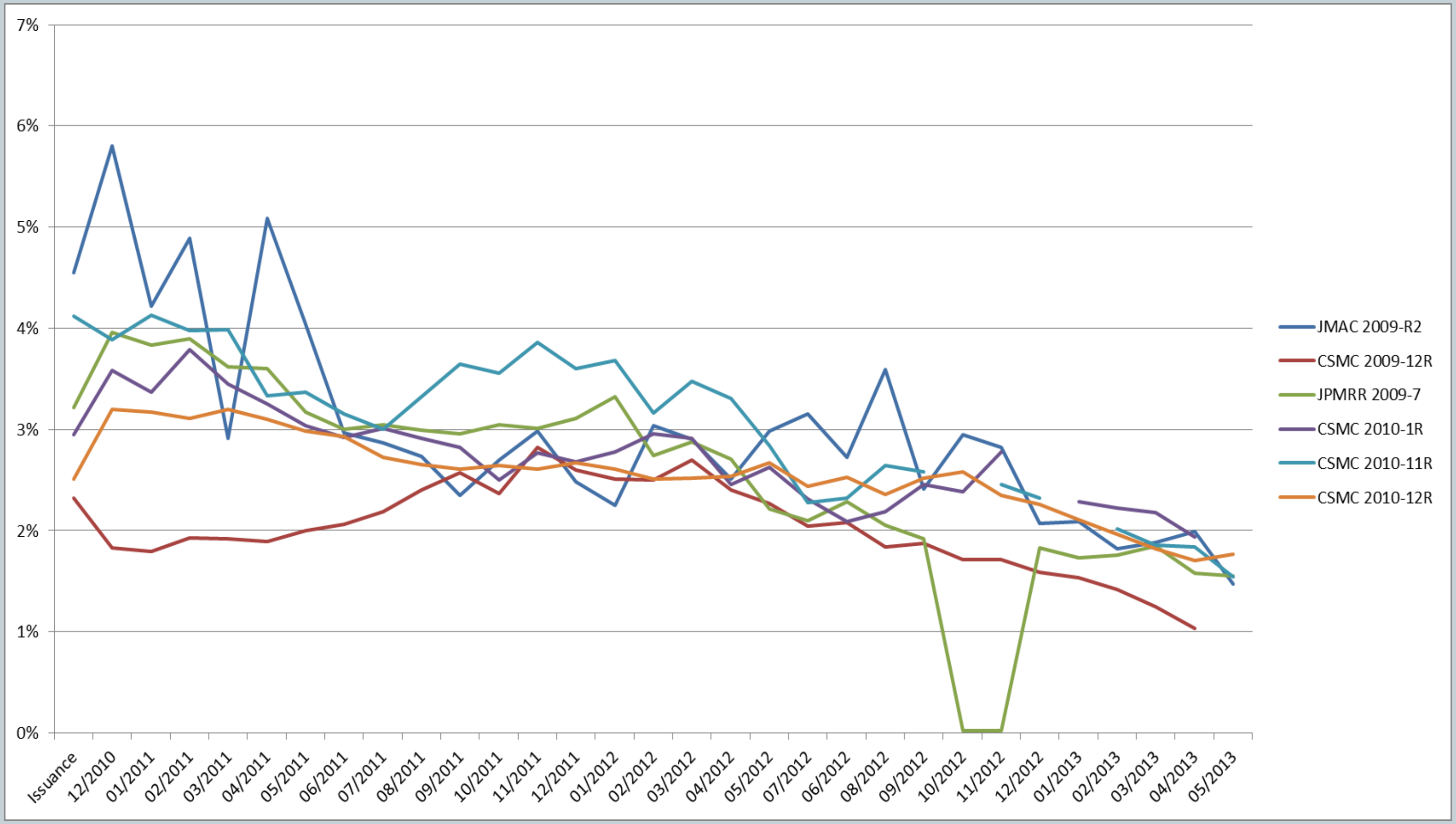
Securitization Collateral

- Foreclosures %



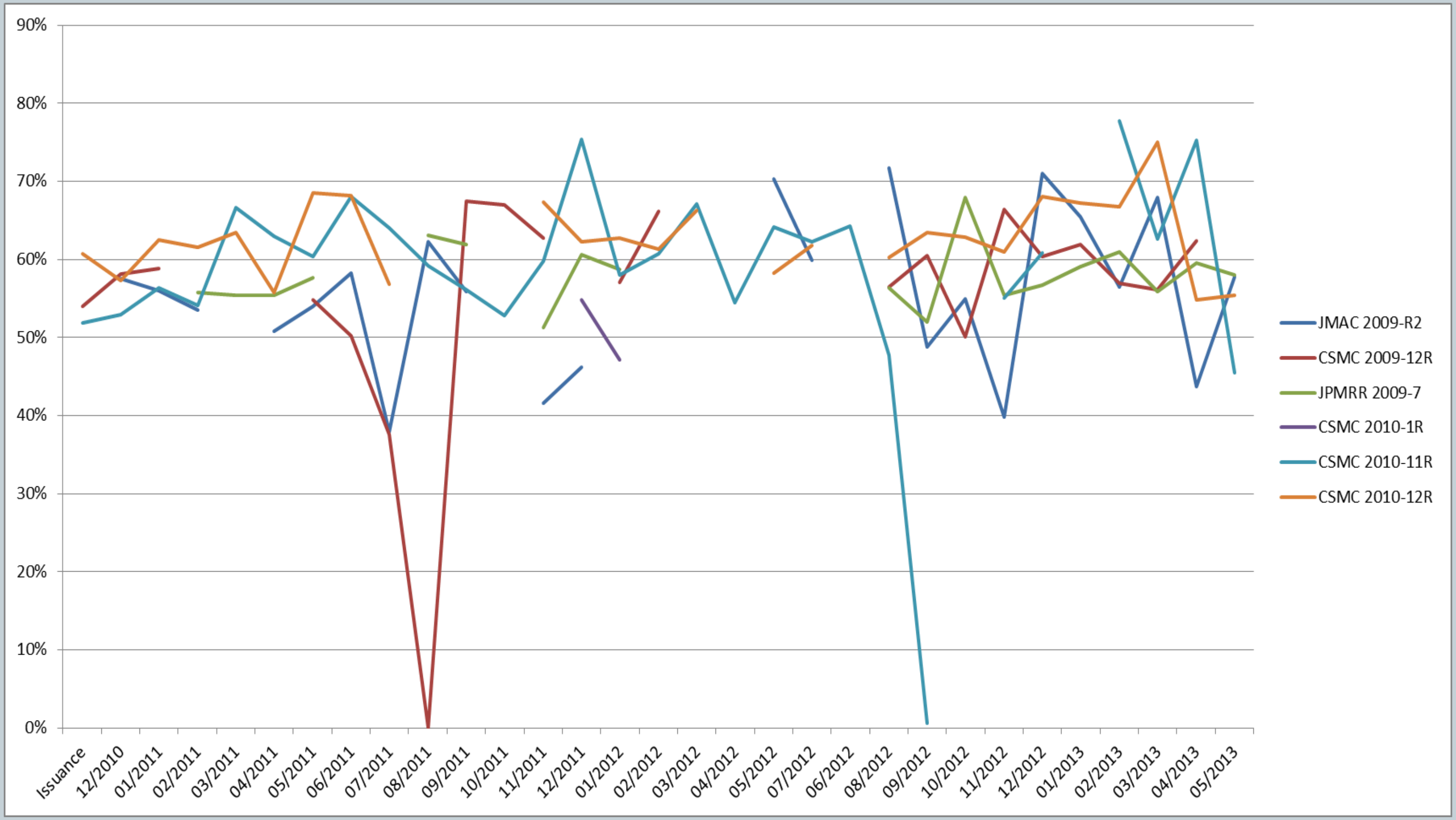
Securitization Collateral

- Real Estate Owned %



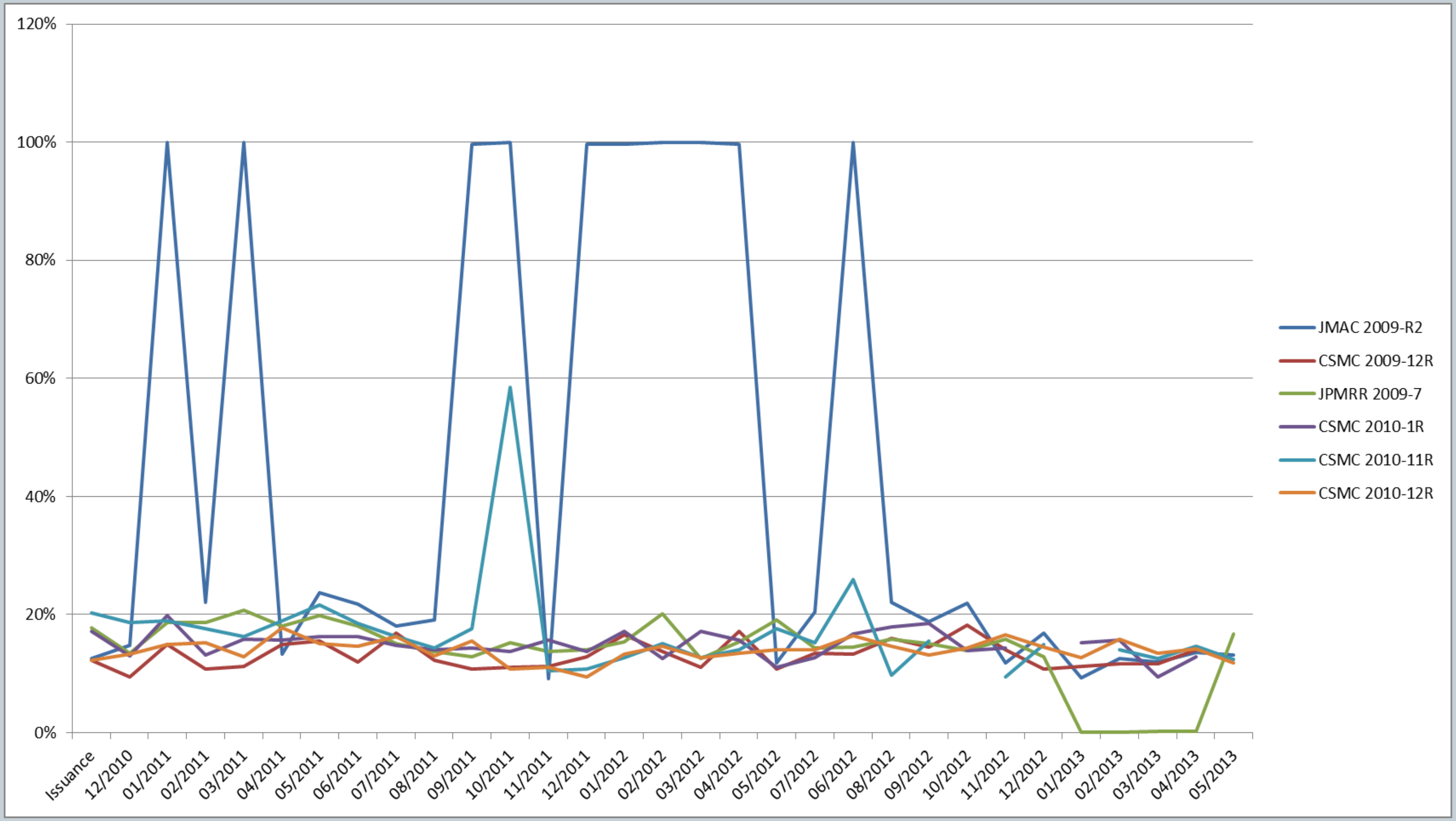
Securitization Collateral

- 1 Month Loss Severity %



Securitization Collateral

- 1 Month Prepayment Rate %



Index Performance

- ABX AAA 2006-1

Index Performance

- ABX AAA 2007-01

Index Performance

- ABX AA 2006-1 Index

Scenarios

- Null Hypothesis – CIM reported book value is representative of economic value
  - $3.04 @ 12/31/12
  - Book Value reflects $2b+ in discounts
- Variant Hypothesis – CIM reported book value understates economic value
  - Underlying collateral has shown significant improvement
  - Market pricing on comparable securities has risen faster than growth in CIM book + dividends
  - Housing market has markedly improved in last 18 months
  - Loss assumptions set at purchase date (heavily weighted to 2009-2011) were highly conservative
  - If CIM recovers more than loss assumptions set at purchase date, it could have a meaningful impact on cash flow and book value

Catalysts

- Regaining current filing status
  - 2011 10K was filed on 3/8/13
  - 2012 10-Q's and 10-K should be filed over the next few months
    - Presumably delayed because auditor change from Deloitte & Touche to Ernst & Young for 2012
- Annaly is likely to purchase CIM once financials are clean
  - CIM has been unable to raise equity and will not be able to raise equity via S-3 until achieving 1 year as a current filer
  - Annaly modified its charter to allow for up to 25% non-agency securities
  - Annaly recently acquired CreXus which it also managed
    - CreXus was an mREIT focused on CMBS
    - 1.1x book value, 13% premium
  - Annaly currently owns 4.4% of CIM

Catalysts

- Cash flow should increase significantly
  - Securitizations create tranches that receive cash flow both simultaneously and sequentially
  - CIM sold off most of the senior tranches as of 12/31/11
  - The subordinated tranches should begin receiving increasing amounts of monthly cash flow as the senior tranches are paid off
  - Improving performance on the underlying provides further support
  - Hard to quantify without seeing their holdings
  - Filing status provides insurance against dilution at the expense of accelerating portfolio growth

Outcomes

- How can you really get hurt?
  - Housing fundamentals deteriorate
  - Assume CIM book value of $3.04 at 12/31/12 grows with ROE of 10%
  - $3.34 in book value less: $0.36 in dividends = $2.98 in book value @ 12/31/13
  - Assume valuation at 1.0x book = $2.98
  - Returns with dividends 5%
- Baseline assumptions
  - CIM gets current with financial statements by end of 2013
  - CIM has committed to paying $0.09 in quarterly dividends through Q413: $0.27 remaining
  - Assume CIM book value of $3.04 at 12/31/12 grows with ROE of 12% - 15%
    - $3.40 - $3.50 in book value less: $0.36 in dividends = $3.04 - $3.14 in book value @ 12/31/13
  - Assume NLY acquires at 1.1 – 1.2x book value = $3.34 - $3.77
  - Returns with dividends 16% - 30%

Outcomes

- Upside assumptions
  - CIM gets current with financial statements by end of 2013
  - CIM has committed to paying $0.09 in quarterly dividends through Q413: $0.27 remaining
  - Assume CIM book value understates economic value by 15% - 25%
    - Implies 12/31/12 economic value of $3.50 – $3.80
    - Market recognizes through P/B multiple expansion until book value reflects intrinsic value
    - CIM raises 2014 dividends as cash flow increases
  - Assume CIM book value grows with ROE of 12% - 17%
    - $3.92 - $4.44 in book value less: $0.36 in dividends = $3.56 - $4.08 in book value @ 12/31/13
  - Assume market valuation at 1x – 1.1x book = $3.56 - $4.49
  - Returns with dividends 26% - 56%

Reward-to-Risk

- Highly Asymmetric
  - Probable downside is +5%
  - Probable baseline is +16% - 30%
  - Possible upside is +26% - 56%

Contact

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