



9 August 2011

AG Mortgage

Reuters: **MITT.N** Bloomberg: **MITT UN** Exchange: **NYS** Ticker: **MITT**

Initiating coverage with a Buy

Stephen Laws

Research Analyst
(+1) 901 322-8212
stephen.laws@db.com

Expect hybrid RMBS portfolio to generate attractive returns

We expect AG Mortgage to ramp its portfolio within three months, with a shift in allocation from agency RMBS towards non-agency RMBS occurring in 4Q11 and 1Q12. Given the current environment, we believe the portfolio can produce high teen returns with net ROEs of roughly 14% after expenses and management fees. Our price target of \$21.50 per share is based on applying a 10% premium to our book value estimate of \$19.70 per share. Given our return expectations and with shares trading at a discount to book value, we are initiating coverage with a Buy.

Expect attractive opportunities in the agency and non-agency markets

We expect AG Mortgage to take advantage of attractive investment opportunities in non-agency RMBS caused by the recent market dislocations as well as to benefit from the low financing cost, slow prepayment, steep yield curve environment for the agency RMBS portfolio. Given our portfolio assumptions, we expect AG Mortgage to generate portfolio ROEs of 16-18% and net ROEs of 14%.

Initiating price target of \$21.50 per share

Our target is based on applying a 10% premium to book value, which we estimate at \$19.70 per share. Historically, companies managing portfolios of agency and non-agency assets have traded in a range of a 40% discount to book value to just over a 100% premium. Because our targets for other similar companies managing hybrid RMBS portfolios are based on premiums ranging from 10%-25%, we believe a premium at the low end of the range is appropriate, as it reflects the opportunities in the sector while still taking into account the company's lack of a track record and the execution risk of the company deploying its IPO proceeds.

Risk factors

AG Mortgage is a new company with no operating history, and it may not be able to implement its investment strategy successfully. Slower-than-expected portfolio growth may result in our estimates proving aggressive. Investment illiquidity, rising interest rates, changing prepayment rates, declining real estate values, and poor credit results may hurt AG Mortgage's business results.

Forecasts and ratios

Year End Dec 31	2011E	2012E
1Q EPS ¹	–	0.70
2Q EPS	-0.00	0.71
3Q EPS	0.15	0.68
4Q EPS	0.57	0.69
FY EPS (USD)	0.72	2.78
DPS (USD)	0.60	2.60
Dividend Yield (%)	3.3	14.1

Source: Deutsche Bank estimates, company data

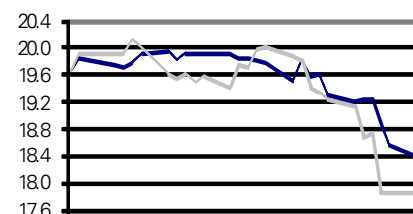
¹ Includes the impact of FAS123R requiring the expensing of stock options.

Coverage Change

Buy

Price at 8 Aug 2011	18.40
Price target	21.50
52-week range	19.95 - 18.40

Price/price relative



6/11

— AG Mortgage
— S&P 500 INDEX (Rebased)

Performance (%)	1m	3m	12m
Absolute	-7.5	–	–
S&P 500 INDEX	-10.7	-10.5	6.9

Stock & option liquidity data

Market cap (USDm)	170.2
Shares outstanding (m)	9.3
Free float (%)	94
Volume (8 Aug 2011)	6,528
Option volume (und. shrs., 1M avg.)	–

Deutsche Bank Securities Inc.

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MICA(P) 146/04/2011.

Investment thesis

Outlook

We expect AG Mortgage to invest its IPO proceeds primarily in agency and non-agency RMBS, with the portfolio initially heavily invested in agency RMBS. We believe recent dislocation in the non-agency RMBS markets presents the company with an attractive opportunity to acquire a new portfolio, and we expect the agency portfolio to benefit from the current environment of low financing costs and slow prepayment speeds through 2011 and likely through 2012. Low financing and hedging costs should allow the company to generate attractive returns on its hybrid RMBS portfolio. We are initiating with a target of \$21.50 per share, which is based on a 10% premium to book value. We are initiating with a Buy rating.

Valuation

We are initiating a price target of \$21.50 per share, which is based on applying a 10% premium to book value, which we estimate at \$19.70 per share. Historically, companies managing portfolios of agency and non-agency assets have traded in a range of a 40% discount to book value to just over a 100% premium. Given that our targets for other similar companies managing hybrid RMBS portfolios are based on premiums ranging from 10%-25%, we believe a premium at the low end of the range is appropriate, as it reflects the opportunities in the sector while still taking into account the company's lack of a track record and the execution risk of the company deploying its IPO proceeds.

Risks

AG Mortgage is a new company with no operating history, and it may not be able to implement its investment strategy successfully. AG Mortgage had no investment assets prior to the company's public offering, and slower-than-expected portfolio growth may result in our estimates proving aggressive. Investment illiquidity, rising interest rates, changing prepayment rates, falling market values, declining real estate values, and poor credit results may hurt AG Mortgage's business and results. We expect AG Mortgage to use leverage to improve returns. A decrease in the value of leveraged assets may lead to margin calls. AG Mortgage may not have the funds available to satisfy any such margin calls and may be forced to sell assets at significantly depressed prices due to market conditions. Disruptions in credit markets could dry out borrowings and could result in higher haircuts, restricting the funding available for AG Mortgage's portfolio growth.

Company overview

Company description

AG Mortgage is a newly formed REIT that is externally managed by AG REIT Management, LLC, a new subsidiary of Angelo, Gordon & Co., L.P. AG Mortgage invests primarily in agency and non-agency RMBS; however, we expect the portfolio to be skewed to agency RMBS assets initially. AG Mortgage may also invest in other assets, including CMBS, residential and commercial mortgage loans, and ABS (investments in ABS will be subject to maintaining the company's REIT status, as income from ABS does not generally qualify as "good" REIT income).

AG Mortgage generates income through the net interest income (difference between the yield on portfolio investments and the cost of borrowing and hedging) minus management fees and other expenses. As a REIT, AG Mortgage dividends are not taxed at the company level, but the company is required to distribute at least 90% of its taxable income annually.

AG Mortgage was first incorporated as Alexander Mortgage REIT, Inc. on March 1, 2011, and the name was changed to AG Mortgage Investment Trust, Inc. on March 25, 2011.

Investment strategy

AG Mortgage intends to build a core portfolio of agency and non-agency RMBS; however, initially the company expects to allocate a significant portion of its IPO proceeds towards purchasing agency RMBS, as the company expects to take advantage of attractive investment opportunities in the agency RMBS market. Over time, AG Mortgage's portfolio will gradually transition to a higher mix of non-agency RMBS. Additionally, the company has discretion to invest in CMBS, whole mortgage loans, ABS, and other target assets.

AG Mortgage will finance its RMBS holdings primarily through repurchase agreements. We expect a blended leverage level of roughly 4-5x depending on the portfolio allocation. We expect agency RMBS leverage of 6-9x and non-agency RMBS leverage of 2-3x. AG Mortgage may also use securitizations, which would be subject to market conditions. We expect the company to utilize hedging instruments to help manage interest rate risk.

Attractive opportunities in the agency and non-agency markets

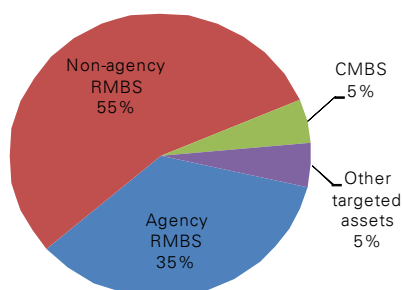
We believe AG Mortgage is deploying capital at an attractive time. On the non-agency side, we believe that recent weakness, given concerns regarding the housing sector, pace of economic recovery, and on-going US sovereign debt issues, has created an attractive time for the company to begin making non-agency investments. On the agency side, we believe the soft economy is likely to result in financing costs remaining low for quite some time, which should enable AG Mortgage to post attractive returns on its agency portfolio for the foreseeable future.

On the financing side, AG Mortgage will utilize repo borrowings to leverage its agency and non-agency RMBS portfolio. With repo rates generally tracking one- to three-month LIBOR rates and given continuous weaknesses in the US economy, we expect the Fed will remain on hold for an extended period. We expect that low cost repo financing will help drive attractive portfolio returns.

Financial estimates

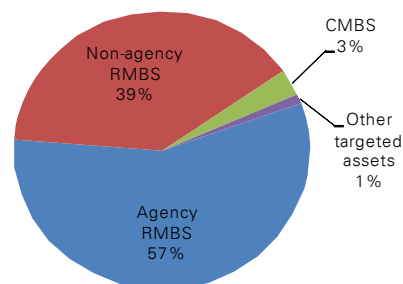
Our model assumes the company deploys its IPO proceeds within roughly three months, with the allocation of non-agency RMBS, CMBS, and other investments increasing in 4Q11 and 1Q12 as the company identifies new investment opportunities. In 1Q12, our model reaches our assumed target capital allocation of 55% non-agency RMBS, 35% agency RMBS, 5% CMBS, and 5% other investments (Figure 1). Our estimates also assume that leverage ramps to 7.0x on agency RMBS, 2.5x on non-agency RMBS, and 2.0x on CMBS (we do not assume any leverage on other investments). As a result of our capital allocation and leverage assumptions, the asset allocation of the portfolio is roughly 57% agency RMBS, 39% non-agency RMBS, 3% CMBS, and 1% other investments (Figure 2). However, we would like to note that the allocation of AG Mortgage's portfolio is likely to change based on management's views of where the most attractive risk-adjusted returns are available across the targeted asset classes.

Figure 1: Estimated 1Q12 capital allocation



Source: Deutsche Bank

Figure 2: Estimated 1Q12 asset allocation



Source: Deutsche Bank

We are initiating a 2011 earnings estimate of \$0.72 per share and 2011 dividend estimate of \$0.60 per share. For 2012, we are initiating earnings and dividend estimates of \$2.78 per share and \$2.60 per share, respectively.

Figure 3: AG Mortgage model (in USD millions)

FY Ends December	2011					2012				
	Q1	Q2E	Q3E	Q4E	FY	Q1E	Q2E	Q3E	Q4E	FY
Interest income		0.0	3.6	8.2	11.9	9.8	10.3	10.4	10.5	41.1
Interest expense		(0.0)	0.8	1.6	2.4	2.0	2.4	2.8	2.8	9.9
Net interest income		0.0	2.8	6.7	9.5	7.9	7.9	7.6	7.7	31.2
Gross ROE		0.1%	6.1%	14.6%	5.2%	17.3%	17.4%	16.7%	17.0%	17.1%
Expenses:										
Base management fee		0.0	0.7	0.7	1.4	0.7	0.7	0.7	0.7	2.7
Other expenses		0.0	0.7	0.7	1.4	0.7	0.7	0.7	0.7	2.7
Total Expenses		0.1	1.4	1.4	2.8	1.4	1.4	1.4	1.4	5.5
Income, before taxes		(0.0)	1.4	5.3	6.7	6.5	6.6	6.3	6.4	25.7
Income tax		-	-	-	-	-	-	-	-	-
GAAP Net income		(0.0)	1.4	5.3	6.7	6.5	6.6	6.3	6.4	25.7
Net ROE		-0.1%	3.1%	11.6%	3.7%	14.3%	14.4%	13.7%	14.0%	14.1%
Average Shares Outstanding		9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3
GAAP EPS		\$ (0.00)	\$ 0.15	\$ 0.57	\$ 0.72	\$ 0.70	\$ 0.71	\$ 0.68	\$ 0.69	\$ 2.78
Total Dividend		\$ -	\$ 0.10	\$ 0.50	\$ 0.60	\$ 0.65	\$ 0.65	\$ 0.65	\$ 0.65	\$ 2.60

Source: Deutsche Bank, company reports

Initiating coverage with a price target of \$21.50 per share

We are initiating a price target of \$21.50 per share, which is based on applying a 10% premium to book value, which we estimate at \$19.70 per share. Historically, companies managing portfolios of agency and non-agency assets have traded in a range of a 40% discount to book value to just over a 100% premium. Given our targets for other similar companies managing hybrid RMBS portfolios are based on premiums ranging from 10%-25%, we believe a premium at the low end of the range is appropriate, as it reflects the opportunities in the sector while still taking into account the company's lack of a track record and the execution risk of the company deploying its IPO proceeds.

External management

AG REIT Management, LLC.

AG REIT Management, LLC. (the Manager) is a newly formed subsidiary of Angelo, Gordon & Co., L.P. (Angelo, Gordon). In managing AG Mortgage, the Manager will utilize Angelo, Gordon's well established infrastructure and investment platform.

Angelo, Gordon & Co., L.P.

Angelo, Gordon fully owns AG Mortgage's manager, AG REIT Management, LLC and is a registered investment advisor with approximately \$23 billion of AUM as of March 31, 2011. Angelo, Gordon, which was founded by John Angelo and Michael Gordon in 1988, is run as a privately held firm. Angelo, Gordon has 230 employees, including over 90 investment professionals. Angelo, Gordon specializes in alternative investment strategies for over 1,000 individual and high net worth investors.

Angelo, Gordon focuses on a range of alternative investment strategies, including RMBS, CMBS, ABS, commercial real estate, etc. Angelo, Gordon's investment team consists of professionals with experience in buy-side and sell-side investment firms, rating agencies, accounting, derivatives, banking, public companies, private equity and trading firms. Angelo, Gordon also manages AG GECC Public-Private Investment Fund, L.P., a private investment partnership, which invests under the US Treasury sponsored Public-Private Investment Program.

Angelo, Gordon's investment team has invested approximately \$6.4 billion in RMBS, and as of March 31, 2011, the company's RMBS portfolio totaled roughly \$3.8 billion. With regard to RMBS investment strategy, the company analyzes loan level cash flows, collateral valuation, and historical and current borrower performance. Angelo, Gordon's RMBS investment team, which is led by Jonathan Lieberman, has nine investment professionals. Additionally, the RMBS team has oversight from the two founders and David Roberts who have an average of over 35 years of investment experience.

Angelo, Gordon is also well experienced across all sectors of commercial real estate, and since 1993, the company has invested over \$13 billion in commercial real estate. Angelo, Gordon's dedicated commercial real estate team, which consists of approximately 30 professionals, has experience in major markets in the US and works closely with over 35 operating partners.

We expect AG Mortgage to benefit from Angelo, Gordon's prior experience in RMBS and CMBS strategies, industry contacts, and existing relationships with major RMBS issuers and broker-dealers.

Management agreement

For managing AG Mortgage, the Manager earns a base management fee equal to 1.50% per annum of AG Mortgage's equity. The equity, for the purpose of calculating base management fee, will be adjusted to exclude non-cash equity compensation expenses, special one-time events pursuant to changes in accounting principles and certain non-cash expenses. The fee is calculated and paid quarterly. The Manager will not receive any incentive fees.

In the event AG Mortgage terminates the management agreement without cause or if the management agreement is terminated due to AG Mortgage's default of any material terms in the management agreement, AG Mortgage is required to pay the Manager a termination fee equal to three times average annual management fee during the two year period prior to such termination. Additionally, the company is also required to reimburse the Manager any unpaid underwriting discount related to the company's equity offerings.

AG Mortgage's base management fees are comparable to those of other externally-managed mortgage REITs, with base-fee-only agreements typically ranging from 1.25% to 2%.

Management

John Angelo, Executive Chairman

John Angelo is co-founder and CEO of Angelo, Gordon and oversees all fund management operations. He co-founded Angelo, Gordon in 1988. Prior to Angelo, Gordon, he served in various positions at L.F. Rothschild & Co., Inc. (18 years), including Senior Managing Director, head of the Arbitrage Department, and member of the Board of Directors. He is an expert in trading in the world markets with emphasis on convertible securities, options, futures, and distressed securities. Mr. Angelo obtained his B.A. from St. Lawrence University. He is a member of the board of directors for Sotheby's.

David Roberts, Chief Executive Officer

David Roberts is a senior managing director of Angelo, Gordon and a member of its executive committee. He has been with Angelo, Gordon since 1993. Mr. Roberts is responsible for Angelo, Gordon's private equity and special situations areas. He was the founder of Angelo, Gordon's opportunistic real estate group. Mr. Roberts has expertise in overseeing investments in various companies and special situations, including companies in business services, healthcare, and financial services. Prior to joining Angelo, Gordon, he was a principal at Gordon Investment Corporation, where he participated in various principal transactions. Previously, he was with L.F. Rothschild, where Mr. Roberts specialized in mergers and acquisitions. Mr. Roberts received his B.S. degree from The Wharton School of the University of Pennsylvania. He is a member of the board of directors of Portfolio Recovery Associates, Inc.

Jonathan Lieberman, Chief Investment Officer

Jonathan Lieberman is head of Angelo, Gordon's residential and consumer investment team. He joined Angelo, Gordon in June 2008. Prior to Angelo, Gordon, from April 1997 to June 2008, Mr. Lieberman served as a senior managing director in the Strategic Finance/Financial Institutions Group at Bear, Stearns & Co. Inc. While at Bear, Stearns, he primarily focused on the specialty finance sector. Previously, he was a senior analyst in the Structured Finance Group of Moody's Investors Service and an attorney at Dewey Ballantine LLP. While at Dewey Ballantine, he specialized in securities law and structured finance. Mr. Lieberman obtained his B.A. degree from Vassar College and his J.D. degree from Hofstra University School of Law.

Frank Stadelmaier, Chief Financial Officer

Frank Stadelmaier is the CAO of Angelo, Gordon, which he joined in 2008. From 1997 to 2008, Mr. Stadelmaier served as a senior manager at Ernst & Young, working with clients in the real estate and financial services industries. Mr. Stadelmaier obtained his B.S. degree from the State University of New York at Albany. He is a Certified Public Accountant.

Risk factors

AG Mortgage is a new company with no operating history, and the company may not be able to implement its investment strategy successfully. AG Mortgage had no investment assets prior to the company's public offering and slower-than-expected portfolio growth may result in our estimates proving aggressive. Investment illiquidity, rising interest rates, changing prepayment rates, falling market values, declining real estate values, and poor credit results may negatively affect AG Mortgage's business and results. We expect AG Mortgage to use leverage to improve returns. A decrease in the value of leveraged assets may lead to margin calls. AG Mortgage may not have the funds available to satisfy any such margin calls and may be forced to sell assets at significantly depressed prices due to market conditions. Disruptions in credit markets could dry out borrowings and could result in higher haircuts, restricting the funding available for AG Mortgage's portfolio growth.

Conflict of interest: Conflicts of interest between AG Mortgage and its external manager may exist. Each of AG Mortgage's officers also serves as an employee of AG REIT Management. As a result, AG REIT Management's executives may have conflicts between their duties to AG Mortgage and their duties to AG REIT Management.

Portfolio allocation decisions: The board of directors will approve broad investment guidelines; however, AG Mortgage's investment allocation is subject to change. AG Mortgage's external manager will have great latitude within the broad investment guidelines in determining the types of assets in which to invest. Changes to the investment strategy may result in riskier investments than those described in this report.

Interest rate risk: Changing interest rates may negatively impact AG Mortgage's results. AG Mortgage earns majority of its net income from the difference between the yield on its portfolio of debt securities and the cost to fund the portfolio. Increasing interest rate environment could increase the cost of AG Mortgage's borrowings or impact the market value of the company's investments. Declining interest rates could result in higher prepayments on agency RMBS resulting in higher premium amortization and reinvestment risk. Conversely, faster prepayment rates on non-agency securities that have been acquired at a discount could result in additional discount accretion resulting in better than expected returns.

Credit risk: AG Mortgage invests primarily in non-agency RMBS, which are subject to default by borrowers. Higher-than-expected defaults by borrowers could result in our forecast proving aggressive. AG Mortgage utilizes hedging instruments to protect its returns from changing interest rates. Hedging instruments are subject to default by the counterparties to the agreement.

Use of leverage: AG Mortgage uses leverage to invest in target assets. Illiquidity, changing interest rates, changing prepayment rates, or changing default rates may negatively impact the value of AG Mortgage's investment portfolio. Reducing portfolio value could trigger margin calls from its lenders, and the company could be forced to sell assets at times when demand for assets is low. In depressed economic conditions, borrowings available for companies like AG Mortgage could be limited. Lack of available repo borrowings could restrict AG Mortgage's portfolio growth and could also disrupt AG Mortgage's ability to rollover maturing debt.

Risk of losing key personnel: AG Mortgage is dependent on key personnel of its Manager and may not be able to find suitable replacements should any key personnel leave.

Investments in other assets: AG Mortgage intends to invest in asset classes other than agency and non-agency RMBS, such as CMBS and other ABS. These other investments could have different risk-return characteristics from agency and non-agency RMBS. A higher-than-expected portfolio allocation to these other assets could result in AG Mortgage's returns being more volatile.

The author of this report wishes to acknowledge the contribution made by Nuwan Jayawardana, an employee of AMBA Research, a third-party provider to Deutsche Bank of offshore research support services.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
AG Mortgage	MITT.N	18.40 (USD) 8 Aug 11	1,7

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See "Important Disclosures Required by Non-US Regulators" and Explanatory Notes.

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.
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1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.
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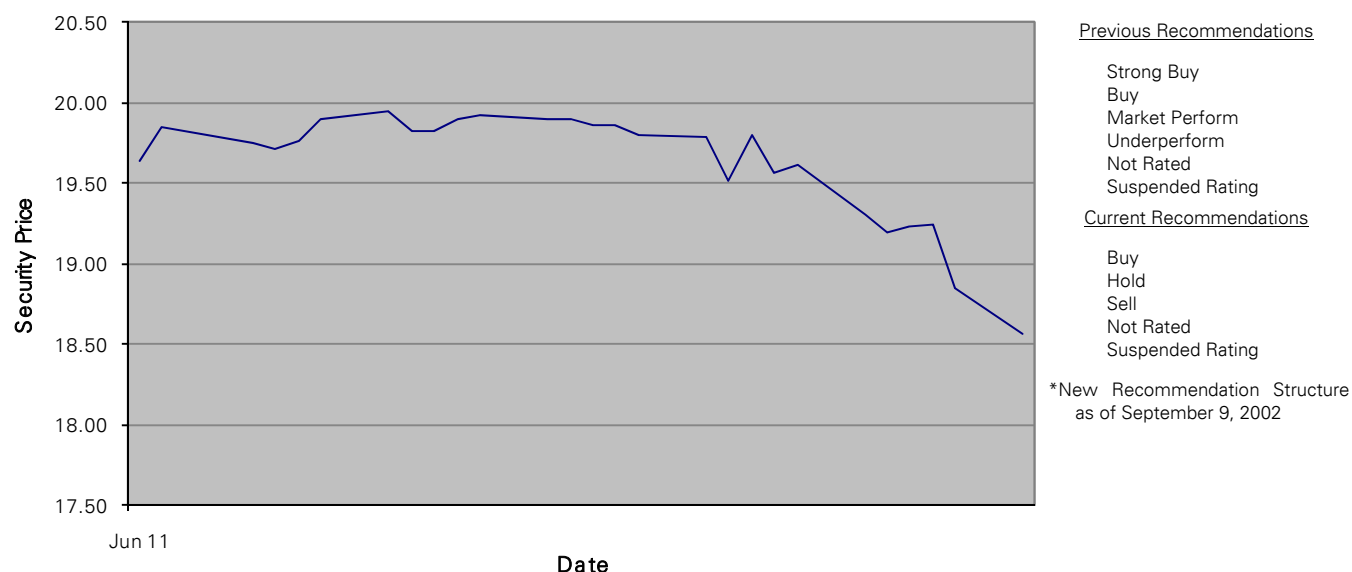
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Historical recommendations and target price: AG Mortgage (MITT.N)

(as of 8/8/2011)

**Equity rating key****Equity rating dispersion and banking relationships**

Buy: Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

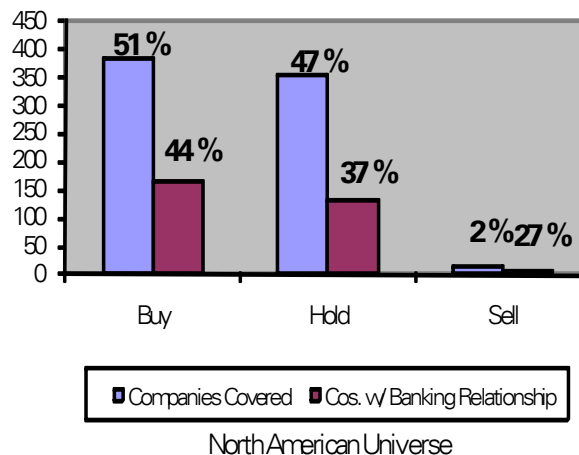
1. Newly issued research recommendations and target prices always supersede previously published research.

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Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period



Regulatory Disclosures

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Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
Tel: (212) 250 2500

Deutsche Bank Securities Inc.

One International Place
12th Floor
Boston, MA 02110
United States of America
Tel: (1) 617 217 6100

Deutsche Bank Securities Inc.

222 South Riverside Plaza
30th Floor
Chicago, IL 60606
Tel: (312) 537-3758

Deutsche Bank Securities Inc.

3033 East First Avenue
Suite 303, Third Floor
Denver, CO 80206
Tel: (303) 394 6800

Deutsche Bank Securities Inc.

1735 Market Street
24th Floor
Philadelphia, PA 19103
Tel: (215) 854 1546

Deutsche Bank Securities Inc.

101 California Street
46th Floor
San Francisco, CA 94111
Tel: (415) 617 2800

Deutsche Bank Securities Inc.

700 Louisiana Street
Houston, TX 77002
Tel: (832) 239-4600

International locations

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank AG

Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

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