CEO CFO

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Formed In 2009, Two Harbors Investment Corp. Is Focused On Investing In Securities In The Agency And Non-Agency Sectors Of The RMBS (Residential Mortgage-Backed Securities) Market

Services
Financial Services
(TWO-AMEX)

Thomas Siering
President, CEO and Director

BIO:
Mr. Siering also serves as Partner—Head of Fundamental Strategies at Pine River Capital Management LP, a global asset management firm headquartered in Minnetonka, Minnesota. Prior to joining Pine River as a Partner in 2006, Tom was head of the Value Investment Group at EBF & Associates in Minnetonka, Minnesota. He joined EBF in 1989 and was named a Partner in 1997. From 1999 to 2006, Tom was the portfolio manager of Merced Partners, LP and Tamarack International Limited, which engaged in a variety of distressed, credit and value strategies. Tom began his career at Cargill, Incorporated where he was a founding member of Cargill's Financial Markets Department. He holds a Bachelor of Business Administration degree from the University of Iowa with a major in Finance.

Company Profile:
Two Harbors Investment Corp. is a real estate investment trust ("REIT") that focuses on investing in residential mortgage-backed securities.

Two Harbors' objective is to provide attractive risk-adjusted returns to our investors over the long term, primarily through dividends and secondarily through capital appreciation. The company acquires, owns and manages a portfolio of Agency and non-Agency residential mortgage-backed securities and related investments. The firm's investment approach focuses on security selection and the relative value of various sectors within the mortgage market.

Two Harbors is externally managed and advised by PRCM Advisers, LLC, a wholly-owned subsidiary of Pine River Capital Management L.P.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Siering, what is the main focus at Two Harbors today?
Mr. Siering: Two Harbors was formed as a mortgage REIT in October of 2009 and our primary focus is investing in securities in the agency and non-agency sectors of the RMBS (residential mortgage-backed securities) market.

CEOCFO: How did you decide that was the right time for a mortgage REIT given everything that has gone on with the economy?
Mr. Siering: Freddy Mac and Fannie Mae ran into a series of problems, which had to do with the decline in home prices and excess lending practices. Ultimately, government intervention was required to provide them liquidity to ensure that their franchises survived to support the residential mortgage market. They underwent quite a period of disinvestment in the space, so they simply needed to shrink their balance sheet and to refocus on providing liquidity to the mortgage market rather than being a player in the value and relative value propositions within the mortgage market. This disinvestment caused a tremendous opportunity for new players within the space. Organizationally, we saw quite an opportunity there, so we amassed a very talented team to invest in the market. We felt the opportunity set was very compelling and, therefore, we launched Two Harbors as a public vehicle.

CEOCFO: How has it been going for the company?
Mr. Siering: It has been going well for Two Harbors Investment and we have a history of providing very strong dividends to our shareholders. We declared a dividend of $0.39 per share for the third quarter of 2010. Year to date, we have declared dividends totaling $1.08 per share. If you took the closing price of when we declared the divided of $0.39 on the closing price of the prior day, that would have been a 17.7% yield on an annualized basis for our shareholders. We are pleased that we have taken opportunities in the mortgage market and turned them into strong dividends for our shareholders.

CEOCFO: Are you doing anything differently now than you did a year ago when you first started?

Mr. Siering: Yes, we are constantly doing new things, and that is one of the value propositions of Two Harbors. We shift our asset allocation within the mortgage markets and try to take advantage of the opportunities that exist. For instance, we did a secondary stock offering in the spring of this year and with the proceeds from the capital raise we shifted our allocation somewhat modestly, but nonetheless shifted, towards the non-agency sector. We felt that there was excellent value in that sector. Our team is constantly looking for the best bonds to deliver the best result for our shareholders.

CEOCFO: Is it easy to find what you are looking for today?

Mr. Siering: Pine River has made a considerable investment in proprietary systems, which we are able to use to analyze the market on an ongoing basis. We have a fourteen-member investment team, so we are constantly on the prowl in the nooks and crannies of the mortgage market looking for the best values.

CEOCFO: What is an example of something you might have gone with because of technology that might not be evident to others?

Mr. Siering: For instance, one thing that we like right now is investment in the subprime market in the non-agency space. One of the reasons for that is because the prevailing market prices imply an incredibly high probability of default with very severe recoveries. While we think that broad outcome is probable, nonetheless we feel that even if you make draconian assumptions about default and recovery you are still generating an attractive yield. Our mindset is there are no bad bonds, there are only bad bond prices. To the extent that we can buy bonds that others don't like, at what we consider to be good values for our shareholders, we will buy them. We are agnostic about what securities we own. The only thing that we are religious about is trying to deliver value to our shareholders.

CEOCFO: Do you do much investor outreach?

Mr. Siering: Yes, we do a lot. Anh Huynh, our investor relations manager, has done a marvelous job bringing us before the public. Last week we spoke at two conferences; Rodman & Renshaw and the Barclays Financial Services Conference. This week we are on the road seeing investors in Toronto, Chicago, Detroit, St. Louis and Boston. On September 29th we are speaking at a third conference at the JMP Securities Financial Services and Real Estate Conference.

We have extensive contact with investors, and one thing that we get high marks on from them is that we really strive to be forthcoming with our shareholders. Our conference calls have the reputation of being quite candid and granular. Obviously, operating within regulatory requirements, there are limits to what we can say and what we do say. But to the extent that we can provide shareholders with more information, it is for the better in our minds. The more people know about us, I think the more people like us.

We are pleased that we have taken opportunities in the mortgage market and turned them into strong dividends for our shareholders. – Thomas Siering

CEOCFO: What do you say to investors who, because of the mortgage crisis of 2008 and part of 2009, have concerns about mortgage-backed securities?

Mr. Siering: Our track record speaks for itself, as do the dividends we have been able to provide. Really, we don't get a lot of negative feedback. People understand the idea that, because of Freddy and Fannie's problems, a lot of capital has left the market, leaving behind ample opportunity. Many people like the beta market profile within the mortgage, but we try to generate alpha as well using our technology and our extensive experience. Our two Co-Chief Investment Officers have 46 years experience in the mortgage space, and that is really unusual. They have spent their entire careers as securities pickers, which is also unusual in this space. So, we use all of these resources to provide alpha -- that is, excess return over and above the market return that exists in the market.

CEOCFO: What is your strategy in the next year or so; do you expect to stay on the same track?

Mr. Siering: We just have the mindset to run our business vigilantly, and we need to continue to look for opportunities. Certainly, the mortgage market has been evolutionary over the last couple of years. The opportunities we see are compelling, although there are some new challenges out there. Within the agency space, there has been a lot of prepayment activity around the programs that Freddy and Fannie have implemented. So there are issues, but we have navigated those extremely well. On the non-agency space, obviously there is credit risk, so in analyzing the credit data we really scrutinize the securities that we buy and the loans that underlie those securities. We have to go into a lot of detail, but that is where we find opportunity. So, we will remain focused on analyzing various sectors and sub-sectors in the market to find the best bonds for our shareholders. For the next year, we are looking forward to running our business, doing it well, and continuing to provide a strong dividend to our shareholders.

CEOCFO: Final thoughts, what should readers remember most about Two Harbors Investment Corp.?

Mr. Siering: The mortgage REIT space is a very attractive opportunity, in our minds, because if you look at the yields within the sector, in a world that is starved for income, it really stands out. We feel it is an outlier with respect to dividend potential. In addition, what they should remember about Two Harbors is the team that we have assembled and the rigorous securities selection process that we go through to optimize our portfolio. We strive to be best in class. That goal includes the areas of corporate governance, portfolio maintenance and construction, disclosure to our shareholders, our reporting standards, etc. So, we truly try to be best in class in all respects. The opportunity set within the mortgage market right now is tremendous and we think we have assembled the best team to take advantage of it.