Semper MBS Total Return Fund Quarterly Conference Call
June 26th, 4:30 pm, E.T.

Chairperson: Greg Parsons, CEO, Semper Capital Management, L.P.

Disclosures:

Diversification does not guarantee a profit or protect from loss in a declining market.

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 855-736-7799. Short term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns.

Definitions:

Cash Flow: Mortgages typically have required monthly interest and principal payments which are collected by servicers of mortgage-backed securities trusts, which in turn distribute these payments to MBS investors.

Duration: Measure of a bond or bond portfolio's sensitivity to changes in interest rates. Generally, the longer the duration, the greater the price change relative to interest rate movements.

Operator: Ladies and gentlemen, thank you for standing by. The views expressed in this call are the current views of the participants and are not intended as a forecast or as investment recommendation. Any information provided with the respect to the fund is as of the dates described and is subject to change at any time. Performance data quoted represents past performance and is not guarantee of future results.

Good afternoon. My name is (April) and I will be your conference operator today. At this time, I would like to welcome everyone to the Semper MBS Total Return Fund Quarterly Update.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you will like to withdraw your question, press the pound key. Thank you.

I would now like to turn the call over to your host Mr. Greg Parsons of Semper Capital Management. Please go ahead sir.

Greg Parsons: Good afternoon. I want to say a thank you to everyone that took the time to call in. Tom Mandel and I look forward to spending a few minutes this afternoon either updating or introducing you to the Semper MBS Total Return Mortgage – Mutual Fund. The mortgage-centric mutual fund we launched almost a year ago now, August of 2013.

My name is Greg Parsons. I'm the CEO of Semper Capital Management. I'm joined on the call by Tom Mandel, co-founder of the firm and senior managing director.

We're going to divide this call into three parts. I'll give a quick overview of the Semper platform. Tom will discuss our fund and many of the market dynamics that we currently see and we'll open it up to questions. So I'd like to take a few minutes on Semper Capital, the firm as we believe our structure, size and skills add distinct value to the fund offering.

We are a fixed income boutique that currently manages approximately $1.1 billion of assets across the firm. We're focused on opportunities in the structured credit space, residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) with over a billion dollars of the firm's assets in some form of mortgage-centric investment strategy. Our strategies that we provide include absolute return, total return and index-based and are offered across multiple product formats to include institutional separate accounts, private funds and public funds.

We're a privately owned organization that's primarily employee-owned. We actively invest alongside our clients, in all of our products, ensuring alignment of interest across the board.

At the center of our firm and our value proposition is our investment team, their skill set and deep experience base. We're very fortunate that the senior leadership driving the investment process at Semper has been at the firm since the 90s and provide a great backdrop of strong general fixed income experience meshed with deep, deep structured credit market specific knowledge.

That team is augmented by the folks who drive the daily portfolio management and investment process for the fund. Those folks have been working together on a contiguous basis for over nine years now providing great continuity and experience base in the sector.

Our investment team supported by robust institutional platform that leverages strong human capital and content specific skills with the strong ongoing emphasis on operations, compliance and risk management.

Before turning it over to Tom and talk about the product and the specific opportunities we see in market, I'll close with some high-level comments as it pertains to the opportunity and what we believe is our distinctive value proposition.

As we think about the drivers of value in the fund, they really break down across three dimensions. The first dimension is, the opportunity that's available in the sector, and I think many of the theses around why legacy credit sensitive mortgage assets remain a great source of both absolute and relative value aren't unique to us but the size, the fragmentation, the continued inefficiency in the space, all offer up a complexity premium.

The second source of value is our specific team, their experience, their process, their skill set, the way they approach the market and the intellectual – the intellectual value add that's expressed in very active portfolio management and security specific selection.

And finally, the structural positioning of the firm, as mentioned previously with over a billion dollars of assets and 20 plus years of institutional history, it's a very robust platform. Meshed with obviously in our particular space, our size at the product level allows just to be quite nimble and opportunistic and take advantage of opportunities of both the security level and at the micro sector level that larger folks can't often participate in.

So with that, I'll turn it over to Tom to talk – to talk about the fund and what we're seeing in the market.

Tom Mandel: Hi, everybody. This is Tom Mandel. As Greg mentioned, I'm a co-founder of the firm back in – which we started back in 1992. And I've got about 30 years of fixed income experience and it has all been on the buy side in portfolio management. So certainly, we've seen a number of interesting things.

I was our first CIO and I remain a senior member of the investment team and frankly I view one of my key responsibilities and actually one of my greatest pleasures is the opportunity to be the liaison with our investors. So I look forward to having the opportunity to talk to you all and hopefully meet you all at some point.

So let me start with a brief history of the – of the MBS Total Return Fund. As Greg said, it started about a year ago at the beginning of August. The timing was actually great. As you recall we were in the midst of rapidly rising rates during that, the first round of tapering talk which in turn led to some temporary widening in spread sectors including legacy mortgage-backed securities (MBS).

The five-year treasury back when we started the fund I believe was at about 135. We went to 175 by early September and it's still now in that 150 to 170 range. So, you know, all in all, it was great time for us to start to fund in the momentum that we gained and then has frankly continued. The fund invests primarily in mortgage securities and currently we are invested primarily in legacy, non-agency, RMBS and CMBS.

You know one of the reasons we're so excited by this fund is that we believe it offers investors an exciting way to invest in the housing recovery which is continuing in both in accessible and in a liquid way. I wanted to mention that U.S. Bancorp is our fund administrator and our custodian and so we've got great operational support frankly in every way.

We've also done a lot of work early on to make the fund available to investors in an easy manner. You can purchase the fund on a number of platforms like Schwab, Pershing, TD, Vanguard, a bunch of others coming onboard on line next few weeks and of course directly from us including through our website.

I wanted to talk just a little bit about performance. This is information that's contained in the fact sheets that we had sent to and you can access at anytime on our website. Calendar year performance through May 31st was 5.13 percent for the institutional share class, from inception which was July 22nd of '13. Through March 31st , performance was 11.77 percent for the institutional share class and inception (July 22nd again) through May 31st was 14.26 percent for the institutional share class, and I wanted to talk a little bit about this environment in which this performance has occurred. It's been an

Past Performance does not guarantee future results.

interesting time over this past year. As I mentioned we had a lot of rate volatility especially early on until tapering got pushed back. We've seen very mixed domestic economic results capped by our very interesting and very negative first quarter gross domestic product (GDP) number that was just revised yesterday, generally weak global growth in places like China and Europe.

And at the same time, this has been coupled with continuing accommodative monetary policies virtually globally. We've continued to have a number of geopolitical events that have occurred. And then within the real estate market, we have continued now for a couple of years to see very solid and now moderating U.S. housing improving credit fundamentals, about 10 percent home price appreciation year-over-year and also very strong – a very strong commercial real estate market which started to improve a little later but it's really accelerated.

In the financial markets, we've seen strong performance across virtually all risky assets. Stock markets have been very strong. Even emerging markets have come back. High yield has been very strong. You know, we continue to be near record highs in stocks and near lows in spreads for most spread sectors. And in the midst of all this legacy RMBS and CMBS have continued to grind higher in price and spreads have continued to contract.

We've seen very strong improvements in credit fundamentals leading to cash flow quality increases. These bonds have become increasingly seasoned and as these bonds get more and more seasoned we're seeing continued reduction in uncertainty and unknowns.

We've seen an end to forced selling, these bonds are being held in stronger and stronger hands, and we're seeing strong technicals as well. The market continues to pay down. There's ongoing reduction in supply of about 10 percent a year. And continued growth and demand so technically the market is in good shape as well.

Let me next take a couple of minutes to briefly describe the current composition and structure of the fund. I don't want to rattle off too many numbers and I'm certainly happy to answer very specific questions if you have them later. And again, you can look at the fact sheets for additional information.

The mutual fund is very well diversified in terms of securities. We have well over a 100 securities, well diversified in terms of the underlying collateral really a myriad ways. You know, one example would be we own a number of securities that have strong upside optionality to continued real estate price appreciation.

Sector allocation: we currently have about a 65 percent allocation to a non-agency RMBS. That has ranged from about 65 to 70 percent over this past year as we've been building the fund. That RMBS allocation is fairly evenly split across Prime, Alt-A, and Subprime subsectors.

In terms of agency mortgages, we currently have about a 6 percent allocation to agencies; that started out much higher. They comprised about 15 percent early on and certainly as we started the fund, we wanted to make sure we had significant liquidity and that was one way to do it.

We've had virtually no allocation to agency CMBS or to ABS but we have had a growing allocation to non-agency CMBS starting at about 8 percent when we launched the fund up to about 18 percent today. And we've kept a healthy allocation to cash in the 5 to 10 percent range. We're at about 10 percent now.

The fund's duration is about 2.5 years. We believe the empirical interest rate sensitivity is even lower than that because of the continued opportunity for spread contraction. And across the subsectors, the durations range from a low of about 1.8 years into Prime subsector and about 2.4 years in Subprime to a high of about five years in the small allocation that we have to agencies and again that agency allocation continues to be there primarily for liquidity purposes.

The average dollar price of the fund is about 90 and again there is a decent range. The average price of Alt-A securities we hold is about $87, low 90s for the Subprime bonds we own and then it's roughly par for the agency mortgages that we own.

A couple of other key characteristics I'd like to mention. In our view perhaps the most critical metric and a continuous topic in our weekly risk committee meetings and that's liquidity. So we have about 40 percent liquidity in one day. In other words, we are prepared for a large amount of redemptions should that happen. And that ranges up to more than – up to 100 percent liquidity in less than a month. So we pay great attention to how rapidly we can sell securities at fair price if we need to and we will continue to do that.

Seasoning: about 40 percent of the securities that we own have collateral from prior to 2005, that's even greater for Subprime, about 60 percent. Seniority in the portfolio overall, about 60 percent of the securities we own are senior and in addition to that I would say that an awfully large number of the mezzanine classes that we own at this point behave as though they were senior because of the significant seasoning of the securities.

About 45 percent of the portfolio was floating rate which certainly contributes to the relatively low duration and currently the gross loss adjusted yield in maturity is about 6 percent for the portfolio. You know as an aside, one question that we get asked a lot is how we think the value in this sector compares to the high-yield corporate market and we have a belief that this is extremely attractive alternative to high-yield credit and frankly to fixed income in general.

You know the high relative yield that I just mentioned, relative to about 5 percent for the high yield market which is not loss adjusted and of course about 2 percent for the overall fixed income market; the lower interest rate sensitivity, again about 2.5 years for this strategy versus about four years for the high-yield market, and about five and half years for the overall fixed income market.

And importantly, we continue to believe that legacy MBS, both RMBS and CMBS, continue to have the opportunity to have prices rise further in concert with improving fundamentals, strengthening real estate prices, strengthening employment plus continued improvement in technicals from an improving supply demand view that we continue to see. So we believe that these bonds can continue to do well even if interest rates are to begin rising.

A couple of current views on our sectors. In the non-agency space, again, we believe that value remains for many portions of these – of the legacy RMBS market. The market remains large, $750 billion to $800 billion in these legacy RMBS and it remains extremely - and it's becoming more - fragmented and seasoned than ever. So you know 60,000 to 70,000 cusips across the sector and many of them again 10 years old or more.

We continue to find a lot of opportunity in a number of micro sectors that offer complexity premiums, opportunity for higher returns for those willing and able to do the work.

A couple of examples of some of the interesting micro sectors that we are currently looking at and investing in would be Alt-A low loan count deals and low loan balance deals just to name a couple.

In the agency sector, although negative convexity and extension risks are much less of an issue now given how much they extended in the middle of last year, we still believe that the agency basis and yields overall are very low. We don't see a lot of near-term concern; the Fed is still buying most of the net supply. But there is still the risk of obviously at some point both federal, both Federal Reserve and general government policies which we think could have a material negative impact on agencies. Although we do find some value in some of the less liquid sectors, sectors like Ginnie Mae reverse mortgages, for example. So we do find the opportunity to own some agencies to get the agency quality and liquidity in the portfolio.

In the CMBS space, CMBS have been doing extremely well as the commercial real estate market has recovered. Demand and liquidity have picked up. You know we're seeing less of an opportunity today in tactical trading of mezzanine pieces as much as there was over the past couple of years but now we're seeing a very good opportunity in well seasoned subordinated bonds that in many cases offer good credit enhancement but still have optionality to improving fundamentals.

Over the near term, we would expect to continue to have similar sector allocation, 65 to 70 percent in non-agency RMBS; 20 percent in CMBS and then the rest continuing to keep in cash in agencies. We plan on keeping duration short. We plan on keeping liquidity high and we think the loss adjusted yield will stay close to where it is now.

In the non-agency space, we're going to continue to seek out some of these last well-sponsored micro sectors that have, including seasoned Subprime, some great structures and great coverage. You know these are securities that in some cases take a little bit more work to understand but we have the ability to do the work and we do so.

In CMBS, we have and we'll continue to have in the near term the combination of the diversified basket of subordinates with this optionality to improving fundamentals as well as some low volatile securities with significant excess coverage, even versus worst case loss projections. We will, importantly continue to have our bottom up focus on finding, evaluating and investing in undervalued cash flows across the MBS and CMBS sectors. At this point, I've probably talked enough.

So I do want to again extend the invitation to have you call us, to visit us, e-mail us at any time. We'd encourage you to visit our website, www.sempercap.com for some additional information. And again, one of the things you'll see are the fact sheets that have a lot of this information on them.

Last thing I'll say is we do expect to make this call available for replay soon and we will send out an e-mail with the timing and the instructions for accessing that if you're able to listen.

Greg Parsons: Thanks, Tom. So again, today the fund is about $80 million in assets. We've got a very robust pipeline, certainly seems to be a significant amount of demand for the skill set for the product and we remain – at the investment team, we remain quite confident and excited about the opportunities we are seeing to drive value and identify frankly misplaced cash flows in the space.

As Tom mentioned and I mentioned earlier, you know, we pride ourselves on being transparent, on being accessible. So outside of this particular call, we welcome folks reaching out to us to understand more about what we do, how we do it and our thoughts on the market.

So with that, we'll close and we'll open it up to questions.

Operator: Ladies and gentlemen, if you would like to ask a question at this time, simply press star then the number one on your telephone keypad.

Your first question comes from the line of Howard Modell with IBN Financial.

Howard Modell: Good afternoon.

Tom Mandel: Good afternoon.

Howard Modell: My question is kind of more of a macro one than the individual composition of the fund right now but it looks to me, I'm no expert on this, just to kind of a outside observer, but it looks to me as if interest rates are not going to be going up anytime soon and we may even be into a period of continuing reduced interest rates for the short term, maybe the next six months or year. Any thoughts on that and how that might affect the fund?

Tom Mandel: Well I think the easy answer from our perspective is that we frankly although we do have a view on rates and they're certainly important to how we manage the portfolio, we think that portfolio is well structured even if rates stay where they are or frankly if they fall. So, we think that we continue to be well positioned even if rates don't go up.

Now if rates were to go down, you know, over the long period of time in concert with a materially negative housing market which we absolutely do not expect, then we certainly would be paying attention; but if in the near term rates are staying low because of monetary easing and so on, we're very comfortable with the portfolio structure.

Howard Modell: Great. Thank you.

Tom Mandel: Thank you.

Operator: Once again ladies and gentlemen, to ask a question, press star one. We'll pause for just a moment to compile the Q&A roster.

And there are no further questions at this time.

Greg Parsons: Well again, we want to extend our thanks to everyone that has supported us to date and those who took the time to introduce us and join the call. We look forward to building on or building new relationships. I appreciate the time and have a great afternoon.

Operator: This concludes today's Semper MBS Total Return Fund Quarterly Update. You may now disconnect.

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