



Semper MBS Total Return Fund Quarterly Conference Call

June 25, 2015, 4:00 p.m., 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.**

*Earnings growth is not a measure of the Fund's future performance. 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. Liquidity Risk: Low or lack of trading volume may make it difficult to sell securities held by the Fund at quoted market prices.*

SEC Yield: Subsidized 4.41%/ Unsubsidized 4.40%

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.

**Yield To Maturity:** Anticipated rate of return on a bond if held until the maturity date.

**Empirical Duration:** The ex post interest rate sensitivity of a bond.

**Basis Points:** A unit of measure that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

**Barclays US MBS Index:** Covers agency mortgage-backed pass-through securities - both fixed-rate and hybrid ARM - issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac

(FHLMC). Pool aggregates must have at least \$250 million outstanding with a weighted average maturity of at least 1 year. One cannot invest directly in an index.

Barclays U.S. Aggregate Index: Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. One cannot invest directly in an index.

Operator: Ladies and gentlemen, thank you for standing by. At this time, I would like to welcome everyone to the Semper MBS Total Return Fund Quarterly Call. The views expressed on this call are current views of the participant and are not intended as a forecast or as an investment recommendation. Any information provided with respect to the Fund is as of the date described and is subject to change at any time.

Performance data quoted represents past performance and is not a guarantee of future results. After the speaker remarks, there will be a question and answer session. I will now turn the call over to Greg Parsons of Semper Capital Management.

Greg Parsons: Great. Well, we want to thank everyone for joining us for a few minutes this afternoon on our quarterly call. Tom Mandel and I look forward to spending the time updating or introducing you to the Semper MBS Total Return Mutual Fund, a mortgage-centric mutual fund we launched coming on almost two years ago now.

My name is Greg Parsons, I'm the CEO of Semper Capital. Again, joined by Tom Mandel, cofounder and senior managing director of the firm. You know for folks that have been with us before on these calls, we'll divide the call into three parts.

I'll give a quick overview of the platform. Tom can talk about the Fund and some of the dynamics that we're seeing in market. And then we'll open up to questions. So part one you know the firm. I'll take a few seconds to describe Semper Capital, as we believe that our structure, our size, our experience that add distinct value to our fund offering and the ability to drive performance in the space.

We are a fixed income boutique. Today we manage approximately \$1.4 billion of assets across the firm. All of those assets are in some form of dedicated structured credit mandate, residential mortgage-backed securities (RMBS), commercial

mortgage-backed securities (CMBS), asset-backed securities (ABS). These strategies include absolute return, total return and index based strategies.

We offer them across multiple product formats, private funds, public funds, separate accounts. We are privately owned. We actively invest alongside our clients. There's a very heavy focus on ensuring that our interests are always aligned with those that invest alongside us.

Having been founded in '92, we've been actively providing our fixed income expertise to a wide range of clients for over 20 years. And our investment team, which is deeply experienced and highly skilled, is supported by a very robust institutional platform that leverages strong human capital across operations, compliance and risk management support. Before turning over to Tom to talk specifically about the product and the opportunities we're seeing, I'll close on some high level comments as it pertains to how we think about the opportunity set and our ability to drive value.

First you know six years into the "mortgage crisis," we continue to see opportunities to drive value on both an absolute and relative basis within the credit sensitive portion of the legacy mortgage-backed security market. The market continues to be massively fragmented and in addition this continues to exist within roughly \$900 billion of addressable opportunity.

We believe the combination of our team's skills, experience and capabilities meshed with the structural positioning of the firm in terms of size and scope allow us to be extremely nimble and opportunistic in driving value within the space. And frankly better exploit opportunities that exist.

Specifically, as the universe of legacy RMBS continues to season, we see continued, if not growing, opportunities for a smaller yet institutional quality structure credit platform like Semper to invest in attractively valued securities that are frankly either not on the radar screen of our larger competitive set or frankly just don't move the needle enough for that audience base. You know as is apparent to all in the market, two critical elements of this particular strategy are the forward-looking impact of rates, rate sensitivity of the Fund and questions around liquidity.

We believe the Fed is on a path to begin or continue raising target interest rates beginning this fall. And implications on the broader overall fixed income mortgage are obviously profound. We believe that this sector is particularly attractive in terms of its relatively low sensitivity to rising rates.

And while some are in the early stage of questioning the kind of liquidity within the fixed income mortgage market at large, we are extremely comfortable with not just the characteristics and dynamics of our sector to ensure that we kind of can push a liquid product downstream, but the tactical and operational management in our Fund, portfolio construction, et cetera, make us quite comfortable with the liquidity profile of our product. With that, I'll turn the call over to Tom to talk specifically about the Fund history and performance.

Tom Mandel: Hello, everybody. I'm Tom Mandel. And for those of you who are new to Semper, as Greg mentioned, I'm a co-founder of the firm and also a member of the investment team, one of our senior portfolio managers. I'm going to start with just a little bit of history about the Fund and then I'll go on to some of the current characteristics and also talk about the market for a bit.

The MBS Total Return Fund is approaching the two year mark. We launched in July of 2013, so we are just now completing our 23rd month. The Fund invests primarily in mortgage-backed securities and we today have been and remain invested primarily in legacy non-agency RMBS and CMBS.

U.S. Bancorp who many of you will know is a leading bank in MBS custody is our fund administrator and custodian. We continue to grow the number of broker-dealer platforms that offer our Fund. And you know rather than going through the names, we keep this list available on our mutual fund website, [semperfunds.com](http://semperfunds.com).

If anyone at any time has questions about how to purchase the Fund directly or through one of these platforms, please contact me or anyone at Semper Capital, we'd be very happy to talk you through that. Touching on Fund performance, again, we're now just one month shy of the two year mark. For the first five months of 2015, so to the end of May, performance net of expenses was 2.09% for the institutional class, and that compares to 1.08% for the Barclays' MBS index which is our benchmark index and about 1% for the Barclays Aggregate Index.

Since inception annualized performance and that's from July 22nd of 2013 through the last quarter end March 31st was 11.78%. And again that's annualized for the institutional share class. Performance has been positive for each of these 23 months.

This performance that we have achieved has continued during this increased volatility in rates and risk sectors that we've seen, and during what we believe is the beginning of the next phase of the bond market which frankly is a market with a bias towards higher yields. During the last three months since the last call that we hosted, we've seen the 2 year treasury rise about 15 basis points to around 70

basis points. And the 10 year treasury has risen by about 40 basis points during that time period to about 2.4% today.

One of the key market drivers that we have seen has been below and even negative yields in many overseas bond markets which has been driven by some continuing and new accommodative policies. The ECB's QE (European Central Bank's Quantitative Easing), a couple of months ago drove German 10 year yields down to zero, and since then recent optimism has supported a rise in that yield which crossed 1% briefly and I believe is now just a little bit under 1%.

Another key driver that we have been seeing and working within continues to be the Fed's positioning for the beginning of their tightening cycle through what we believe will be the initial rise or a couple of increases in the target funds rate beginning this fall. Throughout the period, we've seen a continued improvement in the U.S. housing market which is critical of course not only to the economy but also to the market that we're investing in. A key remains the improving credit fundamentals. Home prices continue to rise. They're going up currently at a rate of about 5% nationally on average, obviously more than that in some regions and less than that even you know in a couple of regions which have shown some negative HPA (Home Price Appreciation). Rents are showing even more strength than homeownership, home price appreciation. We're also seeing a continued improvement in the commercial real estate market fundamentals. Despite this volatility, and when we spoke three months ago, the equity market was near record highs. And perhaps surprisingly, it's again near those record highs today. In the midst of all of this, legacy RMBS and CMBS continued to be solid. Most prices have been holding steady with some movement around the edges.

Some of the more liquid sectors, some of the newer emerging sectors have gone you know gone up in price, down in spread and have now reversed that a little bit year to date. The credit curve has been steepening mildly for many of these sectors over the past month or so. And it's fair to say that liquidity in general is modestly lower in some of these sectors but certainly still much more than adequate in our view.

We continue to see a lot of reasons for optimism in legacy RMBS, basically supported by increasing fundamentals, improving fundamentals and improving technicals. We continue to see improvement in the credit quality of many of the cash flows of these legacy RMBS. Increasingly these bonds become more and more seasoned which further reduces uncertainty and further reduces the unknowns and we've got 10 years of history with declining average lives.

We have not seen forced selling for some time. We continue to see a reasonable number of large bid lists from time to time. And they continue to be extremely well bid when they do become available.

Bonds continue to be held in stronger and stronger hands. And the technical strength continues to improve as well. So the continued reduction in supply which has been about 10% a year continues to reduce the amount outstanding and as pay downs occur and they come back in the hands of investors like ours, that's money that's getting redeployed back into the market. So that technical strength continues to help to support the market.

Next, I will briefly describe the current composition and structure of the Fund. Not too much detail but again there is additional information on our Fund website in terms of statistics as well as performance, both embedded in the Website as well as on the monthly fact sheets that hopefully you're receiving but are also on the website.

The portfolio remains very well diversified with well over 200 securities. We are invested in a large number of sectors in the securitized debt space. Very well diversified in terms of geography, servicers, type of borrower, et cetera.

In terms of sectors, currently we have about a 65% allocation to Non-agency RMBS. And that is broken down further, the Prime allocation is about 35%, Alt-A about 25%, Subprime about 40%. That's very similar to where we were at the end of March. A slight increase in the relative position in Prime and a slight decrease in Alt-A.

Non-agency CMBS has continued to come down just a little bit - we have a 17% allocation currently. We continue to have about a 6% allocation at ABS and cash has been running in high single digits which remains the same. In terms of interest rate sensitivity, the portfolio's duration is still about 2.4 years with the empirical interest rate sensitivity, even lower from the continued opportunity of increasing prepayments as credit quality improves even if rates rise.

We've looked at the effect on prices and performance of our securities and of the Fund this year, in these increasing bouts of rising rates that we've seen. So interestingly we've had I believe five periods or five weekly periods with week over week change in the 10 year treasury of at least 10 basis points. So, weeks in which the 10 year treasury has risen by 10 basis points yield, in each one of those periods, the performance for the institutional share class has been positive. So, we continue to look for any evidence of material interest rate sensitivity and interest rate risk. We continue to see observable data showing us that the empirical interest rate sensitivity of our portfolio continues to be very low. So, if interest

rates do continue to rise, which we believe they will, we think that this sector and this portfolio will continue to be very well supported.

In terms of the average dollar price of the portfolio, the average dollar price is just a little bit lower than it was in the last quarter end. It's about \$88 versus a cost of \$87 so on average about 1% unrealized gain across the portfolio.

We continue to be able to invest in what we believe to be quality cash flows at prices significantly below par which again is a major contrast to the agency MBS market which has an average dollar price about 105. And again that's one of many very appealing characteristics of the legacy space for us. Obviously, one of the benefits of investing in cash flows below par is that if prepayments do strengthen for these borrowers, the timing and the value of these cash flows improves significantly which is a positive for performance.

In terms of our key characteristics, again, liquidity continues to be our number one focus in terms of risk management. Our targeted liquidity or the portion of the portfolio that we believe we can sell at current marks remains at 20% for one week, 50% for two weeks and close to 100% in one month. So again, we believe that we can liquidate securities under current conditions in line with these targets. And we continue to evaluate our portfolio turnover as well as our success in meeting routine redemption activity which we see as proof of that.

We also continue to maintain a cash buffer. I mentioned cash is in the high single digits. And we also have a line of credit from the custodian should we want to use it or need to use it in the case redemptions. So I mentioned earlier that much of this universe has been outstanding for several years, about 40% of our holdings are in securities that were issued before 2005. That's even higher for Subprime, about 60% was issued before 2005. Of course that's important because of the growing information and history we have about borrower characteristics and borrower actions over that time period. So that's a positive for us.

About 55% of the portfolio remains in senior securities. Again, we are constantly stressing the securities we purchase as well as the portfolio for situations in which there is some sort of a systemic stress that may have negative implications either in the short run or the longer run.

About 55% of the portfolio is in floating rate securities. And again to the extent that borrowers are strengthening from a credit standpoint and can withstand rising mortgage rate, our bonds have some incremental protection from rising rates because of this floating characteristic.

The turnover of the portfolio continues to be about 10% to 11% a month. We believe this continues to be a reflection of our ability to identify value and to trade efficiently and it's a reflection of liquidity that a small nimble firm and Fund like ours can have. As an aside, the average realized gain from trading activity over this nearly two year period has been about 2%.

The portfolio has a current gross loss adjusted yield of maturity of about 5%, essentially unchanged from a quarter ago, and an SEC yield of about 4.4% in the last month. And again, this yield to maturity is based in our expectation for future underlying mortgage loan defaults and we believe that is conservative. So if you actually look at the dividends that the Fund has paid, the monthly dividends the Fund has paid, they've actually been higher than our loss adjusted yield of maturity which is a, I think, a reflection of our conservatism.

In terms of portfolio attribution, I had mentioned both turnover and yield as being important. These have been two critical sources of performance, the most important being interest income. Interest income has contributed about 80% of our Fund performance over the past year. And I think that that high percentage certainly is reflected in terms of the low volatility of performance that we have generally had.

Gains through trading, again, we believe that we can be more nimble because of our size. That's contributed about 15% of Fund performance over this past year. And in addition to that, another 10% has come from realized gains from prepayments that we have received. Unrealized gains and losses has been a slight negative over the past year, slightly reducing total performance, and most of that has been in the portfolio's CMBS allocation.

In terms of the current views on sectors, really, they remain essentially unchanged from last quarter. We believe that value remains for many portions of legacy RMBS market, the markets is still more than large enough with over \$750 billion in legacy RMBS across a very large number of CUSIPs in the order of 70,000. I mentioned fundamentals and technicals, we believe, continue to improve.

And importantly we continue to find micro sectors that offer attractive complexity premiums and that have little sponsorship. So an opportunity to generate higher returns for firms that are willing and able to do the work, which we are. We're continuing to look at the same micro sectors that we talked about the last time: seasoned Alt-A and Subprime mezzanine which remain locked out with upside price optionality. Low loan count and low loan balance deals, single-family rental securitizations, in particular, subordinated classes. After having demonstrated a



little bit of spread widening over the past month, they're becoming interesting once again.

As Greg has articulated, we think we're well positioned within the space. We're a small yet credit research intensive shop which allows us to focus on some of these less well sponsored opportunities.

Last time, I mentioned low loan count RMBS and again you know we believe this continues to be a very interesting area for us. So generally, these are MBS with fewer than 100 underlying loans, in contrast to new securitizations that may have several hundred or even a couple of thousand loans. You know these RMBS have low loan counts now because many of these loans have paid off or defaulted over time. The deals as a results are smaller. They are less well covered, less well sponsored. These deals tend to be in the millions or tens of millions instead of hundreds of millions. And you know that's one of our primary areas of focus.

Because of their characteristics, everything else equal, they tend be available at higher yields. So investing in one of these deals certainly does increase idiosyncratic risk but by investing in a bunch of them, they behave much more like a larger deal but with higher return potential. So again, a Firm with our characteristics can take advantage of that anomaly in the marketplace.

Looking forward, we believe that the portfolio over the next few months will look very much like its look for the last – the last few months. We're continuing to target 65% to 70% allocation in Non-agencies. Another 15% or so in legacy CMBS and then a 10% cash balance and agency position again, to provide us with an incremental liquidity buffer.

We plan on keeping duration short and even shortening it somewhat in the coming months. We will continue to work to keep liquidity high under current conditions and keep the attractive loss adjusted yield that we have today. And we'll continue to focus on the portions of the market in which we have a competitive advantage.

Again, as Greg mentioned earlier on, we think that there is a higher probability of a continued modest increase in interest rates in the near term. We continue to believe that this sector is really well positioned to generate attractive returns with a low volatility in this rising rate environment, certainly compared to other bond sectors and alternatives.

I'm going to pass it back to Greg, but again as always please feel free to reach out to me. Call me or e-mail me and I'd love to talk about the portfolio in more detail.

Greg Parsons: Thanks, Tom. So very happy and excited that the Fund today is about \$235 million of assets representing over 30% growth over the past quarter, and we look toward an extremely robust pipeline. For those that are our investors, we appreciate the support. And I think our value proposition and our Firm positioning continue to be validated in market.

We remain excited about the opportunities we're seeing to put money to work and drive an attractive risk-adjusted return. And again I just want to express my thanks to those on the phone that have already committed capital and come along for the ride with us. I briefly mentioned in the last call that our new Fund website is up and running.

You can find current fact sheets, performance, statistics, conference call replays, transcripts, et cetera, on the website. And as Tom mentioned, we pride ourselves in being quite accessible to prospects, clients, friends of the firm, et cetera, so please feel free to reach out at any time. We will be making this call available for replay on our website soon and at this point now, we'll open up the questions.

Operator: At this time, if you'd like to ask a question, please press star then the number one on your telephone keypad. And we have a question from (Peter McGuire) with PJ Management.

(Peter McGuire): Tom, can you get a little bit more specific about liquidity? How big is the outstanding issuance that you're investing in relative to the size of the Fund?

Tom Mandel: Well the legacy RMBS market is currently about \$750 billion. There is very little new issuance of non-agency RMBS. There is some issuance of what we would call emerging sectors, so, for example, single-family rental securitizations. And so you know our Fund today again at \$235 million or so is certainly very small relative to that. Our overall Firm assets, \$1.4 billion, again, very small. That market is the overall legacy RMBS market is shrinking something like 10% a year. And certainly at some point you know that will become modestly problematic for very large investors but as this sector potentially loses some sponsorship in those situations, we frankly think that we'll, given our size, we'll have even more opportunity to buy attractively valued securities. And by the way, we believe that our mutual Fund can grow to about \$2 billion without any noticeable impact on how we can invest and the potential opportunity for adding value. So, we're very excited about the opportunity. So, thanks – and thank you.

Operator: Once again, to ask a question, please press star then the number one. OK. At this time, there are no questions.

Greg Parsons: Great. Well, we really appreciate the support and look forward to updating you all on the next call which will be our two year mark. So again, we appreciate people taking the time to listen and reach out on a go forward basis. Thank you.

Operator: Thank you. This concludes today's conference call. You may now disconnect.

END