Semper Short Duration Fund Quarterly Conference Call

January 11, 2018, 11:30 a.m., E.T.

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

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.

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.

Bloomberg Barclays 1-3 Year Government Index: The Index includes Treasury and Agency securities issued by the U.S. Government with a maturity from 1 up to (but not including) 3 years. This unmanaged Index contains only dollar-denominated, investment grade issues with at least $250 million par outstanding. One cannot invest directly in an index.

NAV: Net Asset Value, i.e. the value of the Fund's assets minus the value of its liabilities.

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

Correlation: Statistic measure of how two securities move in relation to each other.

Effective Duration: Calculation for bonds with cash flow variability. It takes into account that expected cash flows will fluctuate as interest rates change.

Borrowing facility: A facility is an agreement between a corporation and a public or private lender used for short-term borrowing.

Par: Par value is face value of a bond.

Credit Quality weights by rating are derived from the highest bond rating as determined by Standard & Poor's ("S&P"), Moody's or Fitch. Bond ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as S&P, Moody's and Fitch. These firms evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when none of the three rating agencies have issued a formal rating, the Advisor will classify the security as nonrated.

Morningstar Proprietary Ratings and Percentile Rankings reflect risk-adjusted performance as of 1/31/2018. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history, without adjustment for sales loads. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating™ for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating™ metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. The Semper Short Duration Fund received a 5-Star Overall Morningstar Rating™ and 5-Star 3-Year Morningstar Rating™ among 141 ultrashort term bond funds and 5-star 5-year ranking among 110 ultrashort term bond funds. These ratings are specific to SEMIX and SEMRX. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. As of 1/31/2018 SEMIX ranked in the top 5% over the 1 year period among 176 ultrashort bond funds, the top 3% over the 3 year period among 141 ultrashort bond funds, and the top 1% over the 5 year period among 110 ultrashort bond funds. **Morningstar Percentile Ranking** compares a fund's Morningstar risk and return scores with all the funds in the same Category, where 1% = Best and 100% = Worst

Past performance does not guarantee future results.

SEMIX Unsubsidized SEC Yield: 1.97% and Subsidized SEC Yield: 2.22% as of 9/30/2017

SEMRX Unsubsidized SEC Yield: 1.64% and Subsidized SEC Yield: 1.89% as of 9/30/2017

U.S. Bancorp Fund Services, LLC and Quasar Distributors, LLC are affiliated.

Diversification does not guarantee a profit or protect against a loss in declining markets. Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

Operator: Ladies and gentlemen, thank you for standing by. At this time, I would like to welcome everyone to the Semper Short Duration Fund Quarterly Call.

The views expressed on this call are the current views of the participants and are not intended as a forecast or as an investment recommendation. Any information provided with respect to the fund is as of dates described and is subject to change at any time. Performance quoted represents past performance. Past performance does not guarantee future results.

The investment return and principal value of an investment will fluctuate so that investor shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than performance quoted. Performance data current to the most recent month and may be obtained by calling 855-736-7799.

After the speaker's remarks, there will be a question-and-answer session. I would now like to turn the call over to Greg Parsons of Semper Capital Management.

Greg Parsons: Well, thank you very much. I want to start off by saying thank you for calling in today for our second quarterly conference call for our short duration fund. My name is Greg Parsons, I'm the CEO of Semper Capital Management and I'm joined on today's call by Tom Mandel, co-founder of the firm and a senior portfolio manager within the investment team.

Tom and I plan to spend about 20 minutes providing an update on the Semper Short Duration Fund, an ultra-short duration structured credit focused mutual fund that Semper Capital launched in December of 2010. We'll break the call into three parts: First, an update on Semper, the firm and what we are seeing in the overall markets. Second, Tom will then provide an update on the Fund and overview of our outlook. And lastly, we'll open it up to questions.

As many of you know, Semper is a privately-owned asset management platform that focuses our efforts on opportunities within the structured credit space, specifically, Residential Mortgage Backed Securities ("RMBS"), Commercial Mortgage Backed Securities ("CMBS"), Asset Backed Securities ("ABS").

Our AUM is now close to two billion and we manage assets across a wide range of structured credit strategies that include absolute return, total return, and index based solutions, and our skill set is available across multiple product formats to include institutional separate accounts, private funds, and public funds.

2017 was a year of milestone for Semper. We crossed the 25 year mark since our founding in 1992. We crossed the 20 year mark for one of our institutional clients. And our second mutual fund, the MBS Total Return Fund, crossed one billion of assets and continues to grow.

Our platform is as strong as it has ever been with respect to people, resources, and products, and we believe our distinctive positioning within the universe of fixed-income investing will allow us to continue to capitalize on opportunities for our clients and partners.

Let me now share some of Semper's current thoughts related to the opportunity we are seeing in the markets. Even at today's levels, with most non-agency MBS and other mortgage and structured credit sectors at post-crisis tights, we continue to see opportunities to drive value on both an absolute and relative basis within the credit sensitive portions of the structured credit universe.

Strengthening real estate credit fundamentals, the structure of the market and strong technical factors continue to work together to create what we believe to be one, of if not the best, source of risk-adjusted returns in the fixed-income markets. With respect to credit fundamentals, home price appreciation has continued at its very strong pace over the course of 2017 and continues to beat virtually all expectations.

But meanwhile, home affordability remains attractive and high compared to historical levels, meaning that the average disposable income is relatively high compared to the cost of buying and financing a home.

Second, as the universe of these legacy assets continues to season, and the overall credit quality of the residential real estate space continues to improve, we see growing opportunities for a nimble opportunistic strategy to invest in attractively valued real estate related debt securities. While the legacy non-agency RMBS market is now roughly $500 billion in size which we think might present challenges some of the larger players in the space, Semper continues to be able to aggressively navigate opportunistically within this market. At the same time, new issuance has continued to steadily increase, totaling about $60 billion last year in 2017. While still small compared to most markets, it's extremely meaningful and of substance for a firm in our position. Our size both at the firm level and at the fund level allows us to take advantage of opportunities our competitive set just can't access.

Third, our sectors remain extremely well-positioned within the fixed-income landscape with respect to interest rate and price volatility. A large swath of securities in the non-agency RMBS sector and other securitized debt sectors have low rate sensitivities including floating-rate and other features limiting effective duration. Volatility continues to be low in many of these sectors and correlations to other fixed income assets and risk assets continues to be low.

To summarize our views at a high level, we believe that the mortgage credit sector continues to offer higher yield, lower duration, low correlation to other fixed income factors. The continued improvement of real estate fundamentals, economic growth, and wage growth, which all lead to higher home values relative to mortgages outstanding, continue to be strong tenets of support.

All of these continue to make RMBS a great diversifier and a good anchor investment for a short duration strategy, and the sector continues to offer the potential for higher risk-adjusted returns. I'll now turn the call over to Tom to talk specifically about the Fund and our outlook.

Tom Mandel: First, let me extend a welcome to any of our many new investors joining the call today for the first time. And of course, a very special welcome to returning investors.

I'm looking forward to providing an intro and an update about our short duration fund. We launched the fund back in December 2010 and so we now have a full seven-year track record managing the portfolio.

We extended our string of consecutive years of positive net performance to seven despite a fairly significant rise in the front-end of the curve. The Fed raised their target funds rate three times, and the 2 year treasury rose from about 1.2 percent to about 1.9 percent over the course of the year.

Many of you have heard Greg and me talk at length about continuing value in the mortgage credit sector, and how mortgage credit can add value to a total return portfolio. We're equally confident that the sector and related structured credit sectors form the basis for a very attractive short duration fixed income strategy.

In the interest of time, I'm going to focus on a higher-level overview, but I'll certainly welcome any questions either at the end of this call or later at your convenience.

I'll get more specific about the fund's composition but in general, we invest in structured credit with low interest rate sensitivity including agency MBS, both passthroughs and Collateralized Mortgage Obligations ("CMOs"), legacy non-agency RMBS including prime and subprime bonds, newer issue or next-generation or NexGen non-agency paper, including agency credit risk transfer, reperformers, and jumbo private-label securitizations.

We also invest in agency multifamily securitizations which are a type of CMBS. We invest in Single Asset Single Borrower CMBS. We invest in Single-Family Rental Securitizations and also a number of ABS structures along with AAA-rated senior CLO tranches. This universe that we invest in is in fairly sharp contrast to what you'll see in many short duration or ultrashort duration funds that often tend to invest either in government securities or in corporate credit.

We seek to manage our fund to have a portfolio with an overall investment grade credit quality and with interest rate risk or effective duration well below one year along with a yield that is significantly higher than short maturity government securities and cash alternatives.

Our fund provides daily liquidity. There are no fees or limitations associated with the timing of purchases or redemptions. The fund has two share classes: an institutional class and an investor class. The investor class has a 12b-1 fee; other than that, they are the same. The fund is approved for purchase on a number of dealer platforms in addition to being available for purchase directly.

It's included in Morningstar’s ultrashort bond fund universe, and we're happy to say that for the trailing one-year, three-year, and five-year periods it is still ranked in the top five percent of performers through December 31st. And the fund has a five-star Morningstar overall rating.

I'll give you some performance data and there's much more on our fund website but before I continue, I just want to point out that Bloomberg, Morningstar, and a couple other data services had incorrect performance data until a couple days ago for 2017. So if you ran reports from these services please take another look because they are correct now.

For the full calendar year, the Short Duration Fund institutional class returned 3.03 percent versus 0.45 percent for the Fund's primary benchmark index, the Bloomberg Barclays 1-3 year government index for an excess return of over 2.5 percent. And annualized from inception back in December 2010 through December 31st of '17, net performance was 2.51 percent for the institutional class versus index return of 0.73 percent which is an excess return of over 1.7 percent per year on average. The Fund's total rate returns has been positive in each of the last 22 months. Again, a period in which the two-year treasury has risen by quite a bit in this case over 100 basis points over this nearly two-year period.

The primary source of performance in 2017, similar to prior periods, was interest income which generated about 2.5 percent adjusted for expenses. Realized gains generated just under one half percent and unrealized price appreciation totaled another one quarter of a percent.

So while we do actively manage the portfolio because most of the securities are relatively short and high quality, we generally don't see that much price movement. Looking at attribution by sector, the non-agency RMBS sector had the greatest contribution to performance, approximating three quarters of a percent. The Fund pays a monthly dividend and the 12 month dividend rate was 2.51 percent.

Now, I'll provide a little bit of information about the composition and structure of the fund. So as of December 31st, the portfolio consisted of 27 percent invested in government guaranteed paper, 22 percent in non-agency RMBS, 21 percent in CMBS, 12 percent in ABS, and that's a number of different subcategories, and then 13 percent in AAA-rated senior CLO tranches and in other structured credit instruments. In addition to that, we had about a 3 percent allocation to cash equivalents.

One third of the portfolio is invested in securities with direct residential real estate credit exposure and the entire portfolio is either supported with mortgages or other assets securitizing the bonds or is government guaranteed. Again, we don't own corporates and we don't own unsecured paper.

During our last couple of MBS total return calls, we talked about agency CRT sector, reperformers, single-family rental securitizations and other NexGen RMBS. This is equally important for the short duration fund which has about one half of its residential real estate credit exposure as of today invested in these newer issue securities.

These securities provide a great deal of, number one, quality, and very importantly, liquidity, and provide us with some new and exciting opportunities to add value through active management. These subsectors are rapidly becoming a key constituent in our portfolio.

Another investment characteristic that the two mutual funds share in common is the value of voluntary prepayments for discount securities. The Short Duration Fund’s average dollar price for the subprime bonds we own is approximately 96.

Over the last couple years we have continued to see a fairly steady growth in the number of subprime borrower prepayments which is a positive for the timing of cash flows in the Fund’s performance. Of course, we're getting back 100 cents of a dollar on something that we own below par. We expect this to continue even as short rates continue to rise and in some extent because short rates will be rising in our view.

95 percent of the portfolio is investment-grade today. The portfolio has a yield to maturity of approximately 2.9 percent which is up a little bit from 2.8 percent the last time we spoke, has an average coupon of 2.4 percent, and has an average dollar price of 98.

The portfolio’s effective duration is 0.5 years or half a year which is down from about 0.7 years three months ago. So this interest rate sensitivity is roughly equivalent to a 6 month treasury bill.

This low rate sensitivity comes from two sources as we've talked about. First, many of the securities have very short final maturities or average lives and more than half of the securities, about 60 percent today, have floating-rate features.

So as the Fed raises their target funds rate and London Interbank Offered Rate (“LIBOR”) and other reference rates rise in concert, the coupons on these securities rise as well, so this is raising the yield of these securities, helping to support their prices and of course, the Fund’s NAV.

Now, for the $64,000 question, which is our view on the curve. So given a number of things: number one, given the current amount of strength that we're seeing in the U.S. economy, given the increasing likelihood of tapering and diminished accommodation in other developed countries, given the Fed's soon-to-be-increased tapering program of its own with its $4 trillion balance sheet, with still to be determined impact of stimulus from the recently passed tax plan, and from just a hint of inflation pressure, we believe that the consensus view for three rate hikes in 2018 is probably correct.

There are a number of factors holding down intermediate and a long maturity yields and so we do look for the curve to modestly rise and flatten from here. We're close to some important resistance levels in the treasury market, particularly the 10 year, so volatility may certainly pick up. We've seen some of that so far this year.

But importantly, we believe that the structure of the bonds that we own in the fund and continue to buy with their floating rate coupons, with their investment-grade credit supported by the underlying asset values, and credit enhancement that we have in most of these bonds will allow the portfolio to continue to do well even if we see this rate increase cycle continue to unfold.

Importantly, the correlations that we have run and continue to run between this Fund and other risk assets and other bond sectors remains low, and we believe that these bonds can perform well even if we see increased volatility in the equity markets or in some of the other risk sectors.

The one sector within our universe of investable securities that we remain very cautious about is the agency MBS sector. While it's the largest, it's the most liquid, and the highest-quality sector we can invest in, we believe that they remain at risk of underperformance.

As you know, the Fed still owns about $2 trillion of these securities and they've been reinvesting proceeds of paydowns. Essentially, the Fed's been buying up about 25 percent of all supply. Starting last fall, they began their tapering program, first initially reducing the amount that they were reinvesting by $4 billion dollars a month in agencies. That's going to double next month, and it will double again a little bit later this year.

So far, the market has taken this news in stride, but the combination of the sector's relatively low yield, potentially significant change in supply-demand technicals, relatively long duration, particularly of the lower coupon 30-year paper, plus their negative convexity, makes them a sector that we have decided to avoid and continue to avoid for now.

So in summary, we believe we are positioned appropriately for the environment that we're in including the prospect of some volatility in yields and the potential for some volatility in risk assets.

We will continue to position the portfolio with a low duration with appropriate levels of liquidity and invest primarily in investment grade securities all of which are supported by assets that we can evaluate like mortgages and commercial loans with the objective of generating monthly returns that look a lot like the portfolio's yield net of expenses.

And while doing this, continuing to seek to manage downside volatility and at the same time continuing to buy a trait optimistically as the market allows. Back to you, Greg

Greg Parsons: Thanks, Tom. Great overview. Well, we've seen the Short Duration Fund profile begin to rise and hope we've made another small step with today's call. It's a product that we're extremely proud of and excited about the forward-looking prospects for. The fund has a seven year track record and has billions of dollars of capacity to grow.

We remain very upbeat about the opportunities we are seeing in the market to drive value, and I want to thank those in the phone who are already investors with their support to date. Our funds website, www.semperfunds.com has a great deal of information about our views in the market along with the statistics for both for our mutual funds including our MBS Total Return Fund.

You'll see also info there on our firm website about our continuing community outreach programs that we as a team support including multiple veterans programs and housing programs. If there's anything we can do, either providing you or telling you, please let us know.

And finally, if you didn't receive our quarterly fact sheet e-mail on Tuesday, and you'd like to get it going forward, let us know that also. We'll now open it up for questions.

Operator: At this time, I would like to remind everyone in order to ask a question press star, and the number one on your telephone keypad.

Again, that is star one to ask a question.

Your first question comes from the line of (Bruce Ackerman).

(Bruce Ackerman): Good morning.

Greg Parsons: Good morning.

(Bruce Ackerman): I wanted to know if we are exposed to subprime auto loans and if you're concerned about that sector?

Tom Mandel: Yes. We do – we do have a small allocation to subprime auto loans. We pay a lot of attention to the underlying credit fundamentals but we invest in the senior class of these deals, and these classes are built with significant over-collateralization of basically over 50 percent. So essentially, the underlying assets could lose 50 percent of their value day one and we would not lose a nickel.

But importantly, these deals are structured with very, very short cash flows, so we're getting paid down very, very quickly and the credit enhancement is building up these deals very quickly. So while we are concerned about subprime autos as an asset class, we are, in this environment, incredibly comfortable with these senior positions.

(Bruce Ackerman): OK. Thanks Tom.

Tom Mandel: Thank you.

Operator: Again, that is star one to ask a question.

And there are no further questions at this time.

Greg Parsons: Well, great. Again, thanks for participating in today's call. For those that are invested, thank you for the support and those that are still learning about Semper, we welcome the opportunity to get you to know the firm and our products better.

I hope everyone has a great day. Thank you.

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