



## **Semper MBS Total Return Fund and Semper Short Duration Fund Quarterly Conference Call**

**January 22, 2020 04:00 p.m ET**

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

### **Definitions**

**Average coupon:** The weighted-average gross interest rates of the pool of mortgages that underlie a mortgage-backed security (MBS) at the time the securities were issued.

**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 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.

**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.

**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.

**Coupon:** The annual interest rate paid on a bond, expressed as a percentage of the face value

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

**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.

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

LIBOR: A benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world.

Liquidity: The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.

Sharpe Ratio: The average return earned in excess of the risk-free rate per unit of volatility or total risk.

S&P 500: An index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists

Sharpe Ratio: The average return earned in excess of the risk-free rate per unit of volatility or total risk.

Spread Duration: The sensitivity of the price of a bond to a 100-basis point change to its option-adjusted spread.

Standard Deviation: A measure of the dispersion of a set of data from its mean.

Tranches: Pieces of debt or securities designed to divide risk or group characteristics in order to be marketable to different investors.

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

Par: The face value of a bond.

AUM: Assets Under Management.

Alt-A: A classification of mortgages where the risk profile falls between prime and subprime.

RMBS: Residential Mortgage-backed Securities

CMBS: Commercial Mortgage-backed Securities

CLO: Collateralized Loan Obligations

CRT: Credit Risk Transfer

ARM: Adjustable-Rate Mortgage

NPL: Non-Performing Loan

ABS: Asset-Backed Securities

Credit Quality weights by rating are derived from the highest bond rating as determined by Standard & Poor's ("S&P"), Moody's, Fitch, DBRS, Morningstar, and Kroll. 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, Fitch, DBRS, Morningstar, and Kroll. 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 six 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 12/31/2019. 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. 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. As of 12/31/19 the Semper Short Duration Fund received a 5-Star Overall Morningstar Rating™ among 161 Ultrashort Bond Funds and a 5-Star Morningstar Rating™ for both the 3 and 5-year periods among 161 and 127 Ultrashort Bond Funds, respectively. As of 12/31/19 the Semper MBS Total Return Fund received a 5-Star Overall Morningstar Rating™ and a 4-Star 3-Year Morningstar Rating™ among 283 Non-Traditional Bond Funds, and a 5-Star 5- year Morningstar Rating among 236 Non-Traditional Bond Funds. ©2020 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past

performance does not guarantee future results. 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. Morningstar ranked the Semper Short Duration Fund (SEMIX) in the top 20%, 2% and 3% out of 201, 161 and 127 Ultrashort Bond Funds for the one, three, and five-year periods ending 12/31/2019, respectively. Morningstar ranked the Semper MBS Total Return Fund (SEMMX) in the top 71%, 13% and 8% out of 316, 283 and 236 Non-Traditional Bond Funds for the one, three, and five-year periods ending 12/31/2019, respectively. Morningstar Rankings represent a fund's total-return rank relative to all funds that have the same Morningstar Category. The highest rank is 1 and the lowest is based on the total number of funds ranked in the category. It is based on Morningstar total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees.

**Past performance does not guarantee future results.**

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Operator: Ladies and gentlemen, thank you for standing by. At this time, I would like to welcome everyone Semper MBS Total Return Fund and 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 investment recommendations. Any information provided with respect to the fund is as of the dates described and is subject to change at any time. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and the 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 future 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. After the speakers' 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: Good afternoon. Thanks so much for calling in today for our end of year Semper mutual fund conference call. Our plan is to discuss both of our mutual funds during today's call, the Semper MBS Total Return Fund as well as the Semper Short Duration Fund. I'm Greg Parsons, and I'm the CEO of Semper Capital Management. I am joined on today's call by Tom Mandel, Co-Founder of the firm, our CIO, and one of our portfolio managers.

We'll keep to the same script, spending about 20 minutes providing an update on our \$2.4 billion MBS Total Return Fund and our Short Duration Fund, which I am proud to say recently crossed the \$500 million level of assets in December. And as normal, we'll break the call to three parts. We'll give an update on Semper and what we are seeing in the markets. We'll then provide an update on the two funds and our outlook. And last, we look forward to answering any questions you might have.

For those on the phone who aren't familiar with Semper, we are a privately owned fixed income asset management platform that is heavily focused on opportunities within the structured credit space. Within this, we emphasize domestic mortgage strategies. We are headquartered in New York City. We have an office in London in which we open to service our Dublin-based UCITS fund. Firmwide AUM is currently about 3.9 billion, representing about \$1 billion of net growth in 2019 across a range of structured credit products that include both of our '40 Act funds, commingled private funds, UCITS fund, and institutional separately managed accounts. We have four primary strategies – Total Return, Short Duration, Absolute Return, and a relative value Active MBS. On today's call we'll focus on the Total Return Strategy and the Short Duration Strategy.

The investment focus of our Total Return Strategy, SEMMX, has consistently centered around the U.S. mortgage-backed securities market since the Fund first launched over six years ago in 2013. Since the launch of the Fund, we've seen more opportunities within the non-Agency section of the market, which refers to the non-U.S. government guaranteed portion of the nearly \$7 trillion MBS market. This non-Agency market continues to evolve since peaking in size at the inception of financial crisis over 12 years ago. We continue to see strong value in investment characteristics for much of the \$300 billion of this pre-crisis

legacy paper. And we also see value within the \$300 billion of new issue market, which together comprise the approximately \$600 billion non-Agency universe. Although agency MBS performed very well over the past year because of the sharp drop in interest rates, which has brought down mortgage rates nearly 100 basis points, we still view them as less attractive on a relative value basis. In fact, we think they are less attractive than they were because of how much they rallied over the last year.

Separately, the investment focus of our Short Duration Strategy, SEMIX, has also centered around structured credit but more broadly than in our Total Return Strategy with low duration and investment grade profile and low price volatility. Many investors have found this risk/return profile extremely attractive particularly in uncertain markets.

Before introducing Tom, I'll share some of our top-level thoughts on the market. 2019 ended up on solid footing with interest rates ending up a little higher in the fourth quarter. As expected, the Fed cut rates for a third time at the end of October, and made it clear that they would pause and see how inflation and economic growth progressed in 2020. While the markets are generally pricing in one Fed Funds rate cut this year, we believe the Fed is hoping that they are done. We've seen some signs of global economic stability, and it appears the U.S. and the key global economies are in pretty good shape for this year.

The risk on trade has continued and in fact picked up some steam in January so far. The U.S. rates seem to have stabilized with the 2-year at around 1.5-1.6% and the 10-year to 1.8. We believe that there is a greater likelihood for rates to drift higher and for the curve to remain a little steeper than it was for most of last year. While the U.S. residential real estate market was already doing well before the recent drop in rates, today's levels are definitely boosting the market through increased refinancing activity, improved home affordability, and some pickup in real estate activity generally. It's also supportive of the continued trend of strong consumer credit quality, translating into lower mortgage defaults and delinquencies across the board, combined with declining loan to value as home price appreciation continues to rise faster than inflation.

Today's real estate activity is also positive, and that it continues to expand the universe of interesting investment opportunities for us in the mortgage market. Last year, there was about \$125 billion of new issuance in the non-Agency RMBS sector, and this year it's projected to grow to \$140 billion, with most of that issuance coming from newly underwritten loans rather than from securitizations of legacy loans. The biggest increase that we expect to see is in the non-QM or non-qualified mortgage sector. That market has been doubling every year for the last several years, and issuance should reach \$40 billion this year. While these numbers are growing, they are still small in relation to the overall bond market. The total MBS sector is about \$7 trillion, so this year's non-Agency issuance will be tiny in comparison. This reinforces Semper's distinct competitive advantage relative to our much larger competitive set. We believe we can continue to effectively take advantage of opportunities that many others can't efficiently access.

Given today's low level of rates, and high equity market and corporate bond valuations, combined with the large number of looming geopolitical factors, both domestic and abroad, we still believe that non-Agency RMBS is a great complement to other fixed income risk assets. We continue to believe that the sector offers the potential for extremely attractive, steady, risk-adjusted returns

I'll now turn the call over to Tom to talk more specifically about the two funds.

Thomas Mandel: Thank you, everybody, for joining our call today. We'll talk a little bit more about the environment that our two mutual funds are operating in, and we'll look at the characteristics of the funds as of December 31st as well as our position early in 2020. We will post the transcript and a replay of this call in a couple of weeks, and as always, I look forward to answering any questions you have either at the end of the call or certainly at any time going forward. Please feel free to call me or e-mail me.

The MBS Total Return Fund is our long-only, unlevered, total return strategy focused on mortgage-backed securities. We launched it 6.5 years ago in the summer of '13. We've certainly had a broad range of market environments since then and we have been very pleased with the stability of returns, its steady growth, and maybe most importantly, the continued development of the

universe that we invest in. Our investable universe is narrow but it's large, within the \$7 trillion market of MBS, less than 10%, or about \$600 billion of it, consists of mortgages without a Fannie, Freddie, or Ginnie guarantee. This portion of the MBS market is called non-Agency RMBS, and that is where we have found most of the value for the Total Return Fund. This non-Agency market continues to rapidly evolve, and our job is to evolve alongside it, constantly trying to position ourselves to be first movers and early adopters of today's next generation of non-Agency MBS.

The legacy or pre-financial crisis universe of non-agencies, which peaked at \$2.5 trillion in 2007, has now declined, as Greg mentioned, to about \$300 billion through amortization, prepayments, defaults, and calls. And the other approximately \$300 billion outstanding today that's been issued in the last 1-5 years, with a steady increase of new issuance by both non-bank and bank issuers, new issuance this year is projected to be about \$140 billion or about \$15 billion higher than last year.

And as of today in the MBS Total Return Fund, we own a 93% allocation in RMBS and then a 6% allocation to CMBS. While we don't own any agency bonds today, we continue to be positioned fairly defensively. We are focused on owning bonds and have good liquidity, strong credit fundamentals, relatively low-price volatility, and the opportunity for improving credit quality through accelerated delevering of many structures. Thanks to increased prepayments as rates have dropped over the last year, as Greg mentioned. Today's newer issues allow us to generate attractive yield while having appropriate liquidity and nimbleness to adjust to the economic environment if necessary. Again, we don't see any need on agencies today, but we continuously reevaluate that decision.

The fund is \$2.4 billion and it still has significant capacity to grow and allow us to invest in attractive profiles. The fund is included by Morningstar in their nontraditional bond fund category. And it's been consistently one of the top performers in that universe for the trailing three- and five-year periods.

The Short Duration Fund, which we managed consistent with an ultra short bond fund profile is also invested in structured credit, but more broadly than the



Total Return Fund. It is also long only with no leverage. As Greg mentioned the fund has grown to be over \$500 million today. We invest primarily in short duration investment grade securities across agency and non-Agency MBS, CMBS, ABS and AAA rated senior CLO tranches. The sector allocation is very diversified in the Short Duration Fund. We target duration of a half year or less and given the flatness to the yield curve the fund's yield is attractive while taking less than half of the spread duration that the Total Return Fund has. We launched this fund back in December of 2010.

The final quarter of 2019 was relatively quiet for RMBS. The Fed raised their target funds rate late October for the third time, which of course was very well anticipated. After strong rate rally most of the year the yield curve drifted higher during the quarter rising from 1.67 on September 30th to 1.92 on December 31st for the 10-year treasury. The MBS index also benefited from a narrowing basis versus Treasuries during the quarter, while the Aggregate Index was hurt by its longer duration although corporate credit spreads did well again. Prepayments remained elevated in the fourth quarter and credit rating upgrades across new issue RMBS continued at a rapid pace, in many cases accelerated by these higher prepayments. Bonds with call protection and subordinated profiles in general benefited. In fact, we had about 50 rating upgrades in each of the SEMMX and SEMIX, during 2019. We think we may exceed that total in 2020, there have already been well over 150 mortgage bonds upgraded by the rating agencies so far in January. And that is one of our key investment themes currently. Identifying profiles that we expect to benefit from more rapid delevering especially if prepayment remain elevated.

The sector continues to innovate. At the time of our last call, Fannie Mae had just issued their inaugural multifamily credit risk transfer deal. It was about a \$470 million deal in which they retained a first loss piece of 60 basis points. They issued several risk sharing classes with attachment-detachment points in the 60 basis points to 440 basis points range. So similar to RMBS CRT, which has been around now since 2013, these are uncapped LIBOR floaters. The deal was heavily oversubscribed with the mezzanine M10 tranche, in which we participated being priced at LIBOR plus 325 for yield of above 5%. The attachment point for this class is 1.2%, and in order for this class to begin to take any principal loss, multifamily housing loan performance would have to

be worse than it was in the depths of the Great Recession 10 years plus ago. Possible, but we believe very unlikely. The bond is tightened by about 60 basis points since issuance to LIBOR plus 265, the bond today is trading around 105. We are expecting Fannie Mae as well as the money center banks and some other financial institutions to issue more and new types of risk sharing bonds this year.

Next, here's an update on performance and characteristics for the two funds. I am going to start with a Short Duration Fund and probably spend just a little bit more time on this fund than we normally do.

Morningstar includes SEMIX in their Ultrashort Bond Fund Universe, which today has about 200 funds of which 127 have been opened for at least five years. For the trailing three- and five-year periods the fund is in the top 2% of all of these funds. The fund's performance for the quarter ended December 31st for the institutional class was positive 71 basis points versus positive 51 basis points for its primary benchmark index, the Bloomberg Barclays 1-3 Year Government Index.

The fund's performance for the full 2019 year was positive 3.60% for the institutional class versus 3.59% for the index. It's notable that the index performance was supported by its average duration of about 1.9 years during this period of declining rates, while SEMIX performance was virtually identical with much less duration. The fund's performance for the trailing three years through December 31st was 2.98% versus 1.96% for the index. Performance for the trailing five-year period ending December 31st was positive 2.45 for the institutional class versus 1.40% for the index, and annualized excess return of about 1% .

The primary source of performance for the fund is still interest income and it totaled about 83 basis points in the fourth quarter. Prices overall were essentially unchanged given the short cash flows and high quality of the portfolio. Short Duration Funds trailing 12-month yield as of December 31st was 3.11% for the institutional class and the SEC 30-day yield was 2.83%. Standard deviation is currently running at 0.4 and Sharpe Ratio for the fund is a little over 3. The fund's low correlations remain a very attractive feature in

our view. The correlation to the Morningstar Ultrashort Bond Fund Universe and to Morningstar's short maturity bond fund universe is under 0.4, meaning that the portfolio does not move in lock step with other short products. The correlation to the aggregate index is zero. We think this is a strong selling point for the Short Duration Fund versus its competitive set of primarily very large funds that dominate the space.

Next, I'll turn to the composition and structure of the Short Duration Fund. As of December 31st, the portfolio has a 2% allocation to short treasuries; a 22% allocation to non-Agency RMBS; a 22% allocation to agency credit risk transfer bonds or CRT, which as we talked about before are bonds that are issued by Fannie and Freddie, but without a government guarantee. The fund had a 12% allocation to CMBS, a 14% allocation to ABS and a 23% allocation to AAA senior CLO tranches. And then finally cash equivalents total 4%. This overall sector allocation is roughly unchanged over the last quarter.

The CRT or credit risk transfer portion of the fund has an approximate 2-year weighted average life and it has averaged at 0 to slightly negative duration. It's made up of a combination of on the run high gross weighted average coupon prepaying bonds with mid to high 3% yields plus seasoned higher premium investment grade profiles with low to mid 3's yield, with shorter average lives. We own delevered profiles that have been upgraded as well as profiles that we believe will continue delever, roll down the curve and get upgraded.

The RMBS allocation with about a 2-year spread duration and about a one year effective duration includes a 12% allocation to Short Duration RMBS across Jumbo or Prime 2.0 sectors. Generally, AAA rated 2.0 floaters mostly from higher gross weighted average coupon deals. They are seasoned as well as post reset hybrids. We own investment grade bonds in second lien bonds and secondly bond deals with 1 to 3-year duration that we predict will get upgraded quickly. And also delevered and upgraded reperforming loan or RPL securitizations and seasoned profiles. We also own non-QM investment grade bonds, which also have upgrade potential. We have a 6% allocation to single family rental securitizations with 1-2 year average lives and 1-2 year average effective durations. We own various shorter duration profiles of season names

across a variety of shelves including major players like Blackstone's Invitation Homes. We have a 6% allocation to non-performing loans and mezzanine financing trades, which are generally unrated. Most of these are senior tranches with attractive yields and short durations issued by some top issuers in the space, one example being Lone Star.

Asset backed makeup again about 15% of the portfolio with an overall 1 and a 0.5 year spread duration and a similar effective duration. This includes an allocation to AAA and AA rated subprime auto bonds most of which have been recently upgraded and will likely be swap candidates for us to replace with BBBs and As, which offer more upside. We also have about an 8% allocation today to BBB and A subprime auto bonds. These are combination or profiles acquired both as new issues and in secondary market. We focus on profiles that we see as being faster deleveraging bonds rolling down the curve quickly in order to get upgraded, which in turn will result in tightening in spread and also increasing our total return and carry as a result.

We have a couple of percent allocation to extremely liquid traditional ABS, AAA rated autos and credit cards, these are generally floating rate, they are very short, they are highly liquid. And we tend to keep those around to allow us to rotate into other attractive opportunities as we identify them. The CLO allocation consist of floating rate AAA rated senior classes, all of which have under 2-year spread duration and effectively 0 actual interest rate duration. About a quarter of the profiles factoring down with under 1 year weighted average lives, about 60% are callable profiles, which as a result of the callability have lower spread duration, they're shorter and they're seasoned, and they typically exhibit less volatility because of how short they are. Then another 15% are just a little bit longer in 2- to 3-year profiles on average. We have a 12% allocation in CMBS as I mentioned, with about a 2-year average spread duration, but effective duration again close to 0. About 4% is in CRE CLO AAAs, which are well-enhanced short duration, they are seasoned profiles mostly from 2017 and '18 with top sponsors like Blackstone.

We have a 4% allocation to single asset single borrower or SASB AAA floaters with about a 2-year spread duration. And there again we target top operators, again, Blackstone is another example and seasoned profiles. Then we have

about a 4% allocation to Freddie K Floaters. These are non-rated. They have limited prepayment penalties, so prepayment speeds are typically fairly quick, 20 to 40 CPR in average, making their spread durations a low 2-3 years. Again, they are 100% floaters, so they have no duration.

While they are non-rated, these B classes have an equivalent bond in Freddie's fixed rate deals, and in fixed rate deals, these bonds are rated BBB. We believe that the bonds we own effectively have an investment grade credit quality even though they are non-rated. These bonds are yielding 4% or so today.

The portfolio's effective duration today is around 0.5 year unchanged from a quarter ago. We have a 64% allocation to floating rate securities, again these float above 1 month and 3-month LIBOR up from a 60% allocation last quarter. Given that the Fed is likely done cutting rates, we are more comfortable with LIBOR based profiles. The portfolio's yield to maturity based on the forward curve is about 2.9% today, again, unchanged from last quarter. Portfolio's average coupon is 3.5%, down a little bit from last quarter reflecting the Fed's October rate cut plus fund inflows leading us to buy more current coupon paper.

The portfolio has an average dollar price of around \$101, unchanged from last quarter. And 85% of the portfolio today is investment grade with two-thirds of the non-IG paper rate without a rating. So one-third of the 15% or about 5% is in below investment grade paper and then the other 10% is in non-rated paper. And in fact, many of these non-rated issues as I just described briefly are among the strongest credit profiles that we are invested in. Most of the below investment grade paper is in BBB rated newer issue profiles including credit risk transfer bonds that we expect will continue to deleverage, and in many cases get upgraded over the next several quarters.

Next, I'll review performance and composition of the Total Return Fund, SEMMX. For the fourth quarter of 2019, the institutional class returned 60 basis points net. The benchmark index, the Bloomberg Barclays MBS Index returned 71 basis points benefiting from significant basis tightening during the fourth quarter. Agencies generated positive performance despite their rise in Treasury yields.

The Bloomberg Barclays Aggregate Index returned just 18 basis points however as spread tightening and yield just offset the duration impact on bond prices. For the complete calendar year, the institutional class returned 4.86% versus 6.35% for the MBS index. For the trailing three years, the institutional class has returned 4.98% versus 3.25% for the index. And that index's performance for the first three quarters of 2019 of course benefited pretty strongly from the rapid decline in market rates. For the trailing five years, the institutional class has returned 4.5% annualized versus 2.58% annualized for the index. And annual excess return of about 1.9%. Interest income contributed about 1.3% to performance, while prices declined by an average about 40 basis points during the quarter largely the impact of rising rates on our fixed rate profiles.

In the fourth quarter, Agency CRT, which again are floating rate profiles, were the one source of price depreciation as spreads for CRT continue their year long contraction. We benefited from opportunities to move between new issue and secondary positions. Prices of our fixed rate next gen paper including Jumbo 2.0 securitizations and reperforming loan securitizations with a primary source of price depreciation with spreads remaining roughly unchanged and yields higher. Our small allocation in negative duration profiles didn't benefit from the increase in market rates in the fourth quarter because expectations for prepayment rates remained elevated. In our view, we need to see a couple more months of having the 10-year trade in the 1.75 to 1.9% range for these expectations to ease and for prices therefore to strengthen in reaction to this change.

The trailing 12-month dividend distribution rate for the fund was 4.91% for the institutional class. And 30-day SEC yield as of December 31st was 3.90%. The portfolio's standard deviation for the trailing three years, that's currently about 0.8 with a Sharpe Ratio of about 3.7. And just like the Short Duration Fund, this fund also continues to have low correlation to other investment types. The correlation to the Aggregate Index is 0. The correlation to the S&P 500 and the high yield credit universe is about 0.3.

Next, we'll give you a short update on composition and structure of the fund. As of December 31st, legacy bonds or pre-financial crisis bonds including

subprime, prime, Alt A totaled about 23% of the portfolio, which is down 2% from a quarter ago. 20% of the portfolio consisted of bonds that are next generation, so newly issued bonds, but supported with legacy collateral. And 49% of the portfolio is in next generation or new issued securities with newly underwritten collateral. 6% of the portfolio in CMBS and 1% in cash.

During the quarter, we reduced our allocation of legacy bonds by about 2% from a combination of sales and paydowns and we reduced our allocation to single family rentals by 1% down to 13%. Our allocation to Agency CRT increased by 1% to the 22%. And our allocation to NPLs increased by 2% up to 6%. In our view, CRT and NPLs are the two most attractive sectors available to us at present. We also had a 1% allocation to the CMBS sector increasing our exposure to multifamily housing transactions. Rounding out the RMBS exposure was a 6% allocation to reperforming loan securitizations and 11% allocation to Jumbo or Prime 2.0, 4% allocation to non-qualified or non-QM securitizations, 4% allocation to second lien securitizations and then 4% in seasoned hybrid loan securitizations.

So, again, about 50% of our non-Agency RMBS exposure is a next gen or newer issues sectors securitized with newly underwritten loans. About 20% in newer issuance securitizing legacy or seasoned loans and a little over 20% in legacy or pre-crisis paper. This has provided us on the whole with better liquidity, excellent diversification of underlying loans, and really importantly a growing opportunity to invest in securities with an expectation for rapid delevering and increased credit enhancement.

The portfolio's duration at December 31st is 1.4 years, unchanged over the last quarter. In contrast, as rates rose in the quarter, the duration of the agency index rose by about a 1/3 of a year to a little over 3 years.

We increased our allocation to mortgages with floating rate coupons by 5% up to 59%. The portfolio's yield to maturity calculated using yield to forwards remained at about 3.75% while the portfolio's current yield is in the low to mid 4% range. The portfolio's average coupon declined from 4.4% to 4.1% and the average dollar price of the fund was unchanged at about \$96. The average dollar price of the legacy non-agencies that we own continues to be well below par

trading at about \$82 somewhere in the last quarter. And then the average price of the new issue bonds that the portfolio owns range from roughly par to roughly \$103. The portfolio's spread duration remains at 4.

We are optimistic that the several year trend of strengthening residential real estate credit fundamentals is going to continue in 2020. All of the real estate and most of the consumer credit stats that we look at have generally continued their positive trends. We believe that homeowners overall remain in good shape. Delinquency roll rates and losses have trended lower in legacy paper, while prepayments continue to gradually increase for them. New issue collateral continues to perform very well with delinquency buckets remaining very well across most profiles. The most recent Case Shiller Home Price Appreciation data that we have shows a 3.7% year-over-year run rate, while many economists are looking for home price increases to accelerate somewhat from there given today's lower mortgage rates and higher home affordability. In a recent research piece, Bank of America reported that the U.S. residential mortgage debt to GDP ratio has fallen significantly from 74% in 2009 to 49% today. Additionally, the aggregate mortgage debt service ratio they reported is at a 40-year low of 4.1%.

Finally, mortgage debt remains below the 2008 peak of \$10.7 trillion, while at the same time our GDP has grown by \$7 trillion up to \$21 trillion in this 11-year period. The average loan to value for the loan supporting our fund's bonds is under 65% reflecting a high and growing amount of home equity for the average borrower.

Looking forward, we are expecting relatively modest economic growth in 2020 with interest rates remaining relatively subdued and if anything, possibly rising a bit from here. We think the Fed is on hold, yet will be ready to act necessary. We have been positioning both funds to benefit primarily from attractive current income with relatively high quality profiles that should benefit from continued delevering and with muted downside volatility. We want to maintain liquidity and we want to remain positioned to take advantage of opportunistic trades and near term volatility, as it develops. January, it started out very well. Through last night, performance for the Total Return Fund is a positive 73 basis points. And for the Short Duration Fund performance is positive 35 basis points. Both



funds have benefited from some price appreciation in addition to interest income. New issuance has picked up quickly. In the last two weeks, we've seen 40 deals priced or launched across RMBS, CMBS and ABS totaling about \$25 billion. The RMBS issues have been very well-diversified including CRT, non-QM, Jumbo 2.0, NPLs and RPLs.

So, let me wrap it up here and reiterate that I am always available for a call to answer any questions about the portfolios or the market. And I will pass it back to Greg.

Greg Parsons: Thanks, Tom. Great update. The Semper team has never been more upbeat about our market niche and our opportunity to add value to our clients and partners. Both of our funds and our firm remain right-sized to take advantage of these opportunities and both funds have room to grow. We continue to invest in people, systems, data with a goal of meeting your investment needs. We continue to do well and equally important, we continue to do good. We ramped up our efforts for the many activities related to our nation's military heroes. Our True North program allows us to marshal our resources, support to our employees volunteer program at the local level is in full swing. I'll gladly speak with any of you, with question or ways you can help us support our veteran community.

I'd like to thank those on the phone who are already investors for your support to date, and as always, we welcome your feedback as how to make this conference call as productive as possible.

Let's now open it up for questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question, please press star then 1 on your touchtone telephone. Again, if you would like to ask a question, please press star then 1. One moment please.

Again, to ask a question, please press star then 1 on your touchtone telephone. One moment please.

Ladies and gentlemen, if you'd like to ask a question, please press star then 1.

I am showing no questions at this time.

Greg Parsons: Well, great. Again, Tom and I on behalf of Semper, thank you for your support and interest in the call. We look forward to a continued partnership over the coming days. Hope everyone has a great afternoon. Thank you.

Operator: Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you for participating.