Semper MBS Total Return Fund Quarterly Conference Call

April 7, 2016, 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.

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

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.

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

SEC Yield: A standard yield calculation developed by the Securities and Exchange Commission (SEC) that is based on the most recent 30-day period covered by a fund's filings with the SEC. The yield figure reflects the dividends and interest earned during the period, after the deduction of the fund's expenses.

Case-Shiller National Index: A group of indexes that tracks changes in home prices throughout the United States. The indexes are based on a constant level of data on properties that have undergone at least two arm's length transactions. Case-Shiller produces indexes representing certain metropolitan statistical areas (MSA) as well as a national index.

CoreLogic Index - A repeat-sales index that tracks increases and decreases in the same home's sales price over time

Unsubsidized SEC Yield: 5.13%

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 MBS Total Return 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 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.

After the speakers' remarks, there will be a question and answer session. To ask a question, please press star and then the number one on your telephone keypad. To withdraw your question at any time, please press the pound key. I will now turn the call over to Greg Parsons of Semper Capital Management. Go ahead, sir.

Greg Parsons: Well, good morning everyone. I want to say thank you for joining our quarterly call. For those that are existing clients, we appreciate the continued support; and for those that are new to Semper and the platform, we welcome you aboard. My name is Greg Parsons, CEO of Semper Capital Management, and I'm joined on the call by Tom Mandel, a co-founder of the firm and a senior member of the investment team.

Tom and I plan to spend 15 to 20 minutes providing an update of the Semper MBS Total Return Mutual Fund. A mortgage-centric mutual fund that Semper launched in mid-2013. First, I'll give an update of the platform and some high-level thoughts on what we're seeing in the markets. Tom will then provide an update on the fund and an overview of our outlook, and then we'll open it up to questions.

Again for context, you know, Semper is a privately owned fixed income boutique that focuses our efforts on opportunities in the structured credit space specifically, residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and the asset-backed securities (ABS) markets. We manage approximately $1.3 billion of assets at the firm across a 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. Founded in 1992, we've been providing our fixed income expertise to a diverse range of clients for over 20 years and our deeply experienced investment team is supported by our robust institutional platform that

leverages strong human capital with an emphasis on operations, compliance and risk management.

Before turning it over to Tom to talk about the fund's positioning and performance during the first quarter, I'll give some high-level comments as it pertains to the ongoing opportunity in the structured credit space.

First, 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. The size, fragmentation and inefficiencies that exist within the roughly $700 billion of addressable opportunity continue to provide a solid foundation for attractive risk-adjusted returns. This value is only enhanced by the market dynamics that we saw late last year and into the first two months of 2016, with prices in our sector declining by 2 to 3 percent and spreads widening while the overall credit quality of the collateral supporting our bonds continued to improve.

Second, as the universe of legacy RMBS 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 and firm to invest in attractively valued securities and mortgage assets that are either not on the radar screen or have fallen off the radar screen of larger money managers.

Third, our sectors remain well-positioned within the fixed income landscape with respect to interest rates. Last quarter I spoke about the level of interest rates being a massively important element for the bond market in 2016, with an eye and a perspective of rising rates. Well, while that is likely on hold for the near term, our fundamental value proposition within legacy mortgage credit remains strong with respect to having very limited rate sensitivity.

And lastly, liquidity. This continues to be a growing topic and concern across the fixed income markets, and we believe it will continue to grow in importance. As again I mentioned on the last call, liquidity management is one of the most critical inputs into our overall risk management/ investment process.

You know, we were not immune to the risk-off trade that encompassed domestic, international and emerging market debt and the equity markets over the beginning of the year. Most mutual fund sectors had significant redemption activity, as did many private funds. Our foresight in planning allowed us to maintain appropriate liquidity during the period, which helped us stay the course and protect shareholder value despite having some minimal redemptive activity both during January and February.

I'll now turn the call over to Tom to talk specifically about the fund.

Tom Mandel: Hello, everybody. Thanks all for taking time to listen to our fund update, and let me also thank all of you who took the time to speak with me and with us over the last few months as we made the effort to update folks on both what was going on in the markets as well as in the fund. We really appreciate your time.

I'm going to start with the obligatory quick review of the history of the fund, which we started back in July of 2013. We're now in our 34th month, and we're going to be crossing the three-year mark this summer in July. The fund has shown solid growth, growing from about $150 million at the end of 2014, but importantly, the fund remains small and nimble and has significant capacity to continue to grow. Happy to see that inflows have resumed after the pause in the first quarter that Greg referenced. The fund's investment strategy continues to invest primarily in mortgage securities, and our primary sector concentration has been and is still legacy non-agency RMBS, or mortgage-backed securities. There have been no changes to any of the fund's service providers. U.S. Bancorp, which of course is a leader in the MBS custody space, is our fund administrator and custodian. The number of ways that you can invest in the fund continues to grow, including on broker-dealer clearing platforms. And we keep this information available on our mutual fund web site, semperfunds.com. But if anybody has any questions about how to purchase the fund directly or through one of these platforms, please contact me or contact anybody at Semper Capital. At this point, we're approved at virtually all the clearing platforms that your firms may utilize. And lastly, during the last call I mentioned that we had recently added an A share class with the ticker SEMOX. And so now we have three share classes including an institutional class and an investor or retail share class.

Before talking about performance and positioning, I wanted to reiterate Greg's point that risk management is a very important part of our process and we believe we are very good at assessing mortgage credit risk. That's the risk that we want to take and that we believe we're paid to take. However there are a number of additional risks that we evaluate and manage every day, including liquidity risk which is, again, a major focus in the fixed-income markets macro or systemic risks, for which we seek to keep the correlations low of what we own, and interest rate risk. We believe that this legacy RMBS sector lends itself to very effectively allow us to potentially mitigate and manage these risks. And I think that the first quarter was a very good example of how this non-agency RMBS sector and specifically our fund would perform during a challenging and weak market environment which we went through.

So first, just touching on redemptions for a moment, we began the year with assets of $466 million, and we did have redemptions, net redemptions of about $45 million in January and February, amounting to just over 10 percent of the fund which was, you know, we believe in line with what we saw at other funds. The portfolio was appropriately positioned from a risk management perspective, and we comfortably met all these redemptions and we continue to

maintain appropriate levels of cash and near-cash investments. I think as I've mentioned in the past, for every security that we own, we maintain what we call a liquidity score which allows us to monitor how long we believe it would take to sell a bond at its current value or separately what the cost would be of selling a certain percentage of the portfolio at a point in time. And we're happy to say there were no surprises during this period.

And then secondly, the price action of the securities that we own. We observed much lower price volatility for these securities than for many other risk assets. During January and February, the average prices in our portfolio declined by about 2 to 3 percent, which of course was partially offset by net interest income paid out as a monthly dividend which totaled about 1 percent for the first two months. Prices in the portfolio were roughly unchanged in March, with a dividend that was a little above ½ percent.

Turning to performance, for the first quarter of 2016, net performance for the institutional share class was minus 1.10 percent versus 1.98 percent for the Barclays MBS Index. Annualized performance from inception on July 22, 2013 through March 31st was 7.82 percent net for the institutional share class versus the Barclays MBS Index performance of 3.74 percent for an excess return of just over 4 percent. The fund's total rate of return was negative during January and February, minus 85 basis points in January and 79 basis points in February following 29 consecutive positive months. And once again, performance was positive in March. Positive 54 basis points net for the institutional share class.

You know, given the substantial volatility we saw in the markets over this period, we view this performance very favorably. The primary source of positive performance during the quarter again was interest income, while unrealized price declines were the primary source of the underperformance. This pause in the rise of prices which had been fairly consistent in the sector since roughly April of 2009, with the exception of a period in 2011 is a positive in our view, because it means we're able to invest new capital at higher loss suggested yields to maturity now.

From the recent low point in yield spreads last summer to the recent high, yields across much of this mortgage credit space is on average a couple percent higher with a broad range of slightly higher yields for the highest quality cash flows to much, much higher yields for cuspier securities, the kind of securities that hedge funds primarily tend to invest in but much less so by real money investors and certainly not our fund.

To summarize the quarter, it's our view that this sector passed the test, meeting liquidity demands and providing a degree of downside protection for investors' principal. Global markets, of course, have had a much better tone for much of the past several weeks, following these several weeks of rising prices and additional support from central banks. That said, we

certainly continue to have many of the same concerns that we had over the past year including the eventual path of the Fed's interest rate moves which while, you know, it likely will not be at the rate at which they had projected last December, it may also not be as slow as the pace now priced in by the markets. The direction of global growth and inflation or deflation remains unknown, and the impact of new regulations is still unfolding. We do, however, expect bond market liquidity to remain at lower levels, although we do expect it to remain sufficient for our investment strategy, and we think there'll be continued bouts of significant volatility in most risk markets going forward. But all of that said, by far the most important factor influencing the success of our investment strategy continues to be mortgage credit, and by that, I mean the underlying credit quality of homeowners. This is the risk that we are willing to take and that we believe we are able to analyze well. The credit quality of the pools of mortgages underlying the securities we purchase depends primarily on loan-to-value and on homeowners' financial strength. And these measures continue to improve. Home prices continue to rise and are approaching pre-crisis levels on average. The Case-Shiller National Index has been up 5.4 percent year over year through January. The CoreLogic Index is up 6.8 percent year over year through February. At this point, fewer than 10 percent of homes are still under water. And of course the well discussed employment metrics continue to steadily strengthen, which is a key ingredient in homeowners' financial strength. So from a fundamental standpoint, this sector continues to improve and now is doing so with the higher available yield. From a technical standpoint, there are a number of reasons why non-agency MBS and CMBS prices are lower than they were a few months ago. Just to name a few, one, we clearly saw some increase in correlation to other risk assets during the January and February risk-off trade. Second, we've seen continued challenges presented by dealers stepping back from their positioning in bonds based on all of the new regulatory capital restrictions in place. Third, we saw selling pressure from hedge funds with exposure to mortgage credit. And fourth, as a result of all of that, we saw a reluctance of many real money investors to invest during this first quarter, rather preferring to wait and watch.

The hedge funds' selling pressure was highest around year end and leading up to the end of this first quarter, but it's now abated. You know, we're cautiously optimistic that although there will be more selling, we don't think it will be as disruptive as it has been for the last several months. Most of the selling that we saw from the hedge fund space was in lower dollar price bonds, lower in the capital stack which have much greater optionality both positive and negative to housing and real estate. This is not the kind of paper that we tend to buy, but certainly there was some spillover impact. However in the longer term, technicals which have been a negative for the past few months are still on the side of the legacy market, primarily from the continued reduction in supply of 10 to 15 percent a year, which increases scarcity and puts more money back in the hands of real money investors combined with continued interest by a diverse range of real money investors including mutual funds, insurance companies, banks, among others.

Next, allow me to briefly describe the current composition and structure of the fund. And, of course, if there is additional information that you would like at any point in the future please let me know. The portfolio remains very well diversified in terms of the number of securities. It remains well diversified across sectors, subsectors, micro sectors that we look at, across vintages, across geography, across types of borrowers and more. At the end of March, our sector weightings were as follows. We had about a 51 percent allocation to non-agency RMBS, we had about a 2 percent allocation to agency MBS, a 19 percent allocation to CMBS, a 4 percent allocation to agency CMBS, a 9 percent allocation to asset backs, a 13 percent allocation to cash equivalents and then, within the RMBS space, 16 percent of 100 percent was in Prime a little bit more than the 14 percent allocated to Alt-A and 21 percent in Subprime. So Subprime continues to be a slightly larger sector weighting than prime, which is again a little bit larger than our Alt-A weighting. These are all very close to the late December weightings, with the exception of cash and agencies which I'll talk about in just a moment. Over the last third of 2015, you know we had reduced our allocation to legacy RMBS from roughly 60 percent to about 50 percent, which we primarily accomplished through cash inflows. And we did that because we were expecting to see some increasingly attractive opportunities coming from widening spreads and some of the liquidation activities that we were seeing late last year in the hedge funds. Having a somewhat higher allocation to cash, plus agency MBS at that point provided us with both dry powder and potentially higher liquidity profiles. We maintained that position during the first quarter and given that we believe we are past much of the hedge fund redemption activity and past the risk-off trade, we have begun buying bonds again at attractive levels. In terms of duration, as rates fell during the first quarter during the risk-off environment we took the opportunity to sell most of our agency RMBS and building more cash. The bottom line for us is, you know we think that with the 10-year at 1.70 that there's asymmetrically more risk of rates rising modestly than falling from here relative to what we felt when the 10-year was closer to 2 ¼ a few months ago.

So again with this risk/reward of holding low-yielding, negatively convex bonds less attractive, we thought it was a compelling decision to move away from these securities which we had held primarily for liquidity. So the bottom line is we built up our cash balance. The effective duration of the portfolio with this lower allocation to agencies is now about 1 ½ years, but empirical duration remains even lower than that in our view. We continue to calculate the durations assuming low prepayments such that, if interest rate increases were significant enough to have an impact on prepayments, that would already be baked into our numbers. But, in fact, we believe that it's more likely that prepayments will continue to rise and exceed our assumptions. We've continued to monitor the effect on prices and performance of our securities from changes in interest rates since inception, both periods of rising and falling rates, and again we continue to see our prices remain relatively stable, with very little empirical duration. In terms of the portfolio's average dollar price, currently it's about $86 which is

down from about $88 a quarter ago, and again that's versus a cost of about $86. So down a couple percent over this past three months. The average price of the agencies we hold is about $100. For the CMBS, it's about $95. And for the RMBS portion of the portfolio, the average dollar price is about $83 which is down from $85 a quarter ago. Our subprime bonds, however, continue to have a higher average dollar price of just under $90. Some of the other portfolios' key characteristics: we continue to have diversity across vintages, over 50 percent of the portfolio is 2005 or earlier. About 10 percent of the portfolio is in relatively recently issued paper, paper issued over the last couple of years. About 50 percent of the RMBS that we hold remains senior in the capital stack which, of course, have credit support from structurally subordinated bonds which are in first-loss positions and remains about the same. Sixty percent of the RMBS that we hold are in floaters, and again, to the extent that borrowers are stronger from a credit standpoint and can withstand rising rates, our bonds have some price protection from these rising rates. And of course, borrowers are incented to refinance should these rates rise. Turnover remains appropriate. We continue to be comfortable with this level of turnover. Our selling and purchasing activity has been relatively stable over the last few months, still at close to a 100 percent annual rate. But importantly, we believe that our size, our small size compared to most other managers remains a significant advantage in this market. We do not have any leverage in the portfolio, we don't expect to, nor do we expect to incur the cost of hedging. First, we're very comfortable doing the credit work and taking on the credit risk that we've assumed, and second, we think that the rate risk of the portfolio is low, as I had mentioned earlier. The gross loss adjusted yield to maturity has averaged about 6 percent over the past few months, which is up from about 5 ½ percent at the end of last year. The yields on the RMBS portion of the portfolio is approximately 6.3 percent, which is up from about 6 percent at year end. The SEC yield for the institutional class for March was 4.92 percent subsidized and 4.98 percent unsubsidized. And this yield to maturity that we talk about again is loss-adjusted, it's based on our expectation for future underlying mortgage loan defaults and we believe that we do this conservatively.

Next I'll touch briefly on our sector views. In terms of non-agency RMBS, we now see the best opportunity to buy attractive cash flows that we've seen in well over a year. Loss-adjusted yields as I have mentioned have risen by 1, 2 percent or even more while, on average credit quality continues to improve and cash flows continue to shorten. We are buying bonds today with loss-adjusted base yields of 6 or 7 percent, which fit our credit quality and duration targets. Liquidity remains critical as the asset class slowly pays down and as individual deals continue to get smaller. But again, we view this as a competitive advantage for us. We're continuing to find micro sectors offering attractive complexity premiums with little sponsorship which again is an opportunity for higher returns for one that is willing or able to do the work, which we are. In the CMBS space, we remain very cautious. We believe there will be continued new issue supply pressures. We believe there'll be more idiosyncratic credit risk from sectors under pressure like malls, office space in Houston, for example, and

potentially from more hedge fund selling. You know, that said, we see value in a few areas, for example, we have found value in small balance commercial loan deals which are less well-sponsored than some of the larger CMBS deals but like the residential market have had some very strong fundamental credit trends. In the agency sector, we still believe that on the whole this sector offers very little value with low yield given the level of interest rate risk that one assumes both in terms of duration and negative convexity. In fact given today's yield levels, we're more cautious than ever.

We continue to focus on new and emerging sectors like the credit risk transfer deals. You know, they all vary greatly by collateral and they're very deal-specific, but they do offer some good opportunities. Prices and yields have been very volatile in some of these sectors, and some of them have demonstrated a very high correlation to equities and high yield. For example, the CRT space, a 2015 last cash flow security which ended December 31 with a yield spread of around 485 basis points had widened to about 685 basis points by mid-February, but then it ended March at around plus 375. Another example: A recently issued Freddie Mac K-Series multifamily deal went from a yield spread of about 500 over at year end to about 750 over in mid-February, before ending March at about 630 over. As Greg's articulated, we believe we're well-positioned within this space. You know, as a small yet credit research-intensive shop, we can focus on some of these less well-sponsored opportunities.

And then just to summarize in the near term, our outlook. Number one, we expect to take advantage of the recent weakness that we've seen to continue to add bonds at attractive levels, which we believe can modestly boost the fund's yield. Most of this we expect to be allocated to non-agency RMBS, but we will retain an appropriate allocation to cash and near-cash assets. We intend to keep duration short. We continue to focus on the portions of the market where we think we have the competitive advantage while also focusing on the growing value in emerging sectors. In our view, there is a reasonable chance for some modestly higher interest rates in the front end, but certainly continued volatility, and we continue to believe maybe more than ever that this sector is best positioned to generate attractive returns in a rising rate environment among bond sectors, from the perspective of the current yield, duration, fundamentals, optionality and technicals. And even if rates stay where they are for a prolonged period we believe just as strongly that our relative performance will be competitive, thanks to the fund's yield and fundamental credit strength.

And let me just wrap up by once again asking that all of you call me, e-mail me, visit us at any time so we can continue to have this dialogue. And thank you.

Greg Parsons: Thanks, Tom. Great update.

You know again, in summary, you know the fund today is approximately $430 million with an extremely robust pipeline. We're more excited than ever about the opportunities we're seeing in the market to drive value, and I want to thank again those on the phone who have already invested for their support to date.

I'd like to mention once again that our mutual fund web site, www.semperfunds.com, is live. It continues to add useful content about both our fund and the market, including current fact sheets, historical performance, statistics, conference call replays and more. Please check out the web site, and give us feedback. We'll be making this call available specifically for replay on our web site soon. And with that, we'll now open it up to questions.

Operator: As a reminder, if any participant has a question please press star one on your telephone keypad. We will pause for just a moment to compile the Q&A roster. And your first question comes from Kevin Arnold of DePaulis.

(Kevin Arnold): Greg and Tom, thanks for the update. Can you speak to the Level 3 assets within the fund, specifically as it relates to price discovery, tradability/liquidity and opportunity?

Tom Mandel: Yes. So we have a relatively low percentage of Level 3 securities. Those securities are, they're valued in, you know, a number of different ways. And we do that in conjunction with our administrator who has a very robust pricing policy. You know, Level 3 securities have very little liquidity and therefore there's just not room for a lot of them. Most of our securities that we hold are Level 2. Let me know if I skipped part of what you're looking for me to answer.

(Kevin Arnold): Could you speak a little bit to tradability of those assets, if there is any? On the secondary assets?

Tom Mandel: Yes. Well, I would say that there's no clear market for the kinds of assets that we own that are Level 3. You know, clearly we find that I mean, one can generate - one can generate bids on virtually everything. It tends to be negotiated transactions. But we're not spending a lot of our time trying to sell Level 3 securities because, you know these are securities where we tend to like them for their longer term credit improvement and yield opportunities, and so we're not buying them with a view to sell them. You know, I'd say again, the liquidity is very limited, but through negotiated transactions, we have over time found the ability to sell I guess everything that we've ever owned at, you know, at an appropriate price.

(Kevin Arnold): Thank you.

Operator: Again if any participant has a question, please press star one. Your next question comes from the line of Chris Moe of CM Capital.

(Chris Moe)*: Hi, guys. Thanks for the update. I imagine in the risk-off a lot of the negative return was price-related for you guys. And you said that the credit performance is so high. What are some of the factors that will cause those prices to creep back up?

Tom Mandel: Well, the cash flows for much of what we buy tend to be pretty short, and they continue to shorten. Most of these are amortizing securities, and so every time a mortgage borrower, you know, makes a monthly mortgage payment there's a tiny portion of our bond that's getting repaid at par despite the fact that the average dollar price of these securities is in the mid-80s. So, you know, over time the fact that we're getting back this principal will make these securities increasingly compelling. I think that one reason why, you know, prices declined for technical reasons basically temporary supply and demand, bonds were being sold or bid out, and people weren't buying bonds for a period of time. I think that once the market began to settle down and continues to settle down, real money investors will continue to see the value in these cash flows. And prices will either be again, be bid up by these buyers and/or they will creep up because of continued amortization as they continue to shorten. I think it's important to say that we have always and will continue to expect the bulk of the performance of our fund to come from interest income and not from price appreciation.

(Chris Moe): Thank you.

Operator: And gentlemen, there are no further questions at this time.

Greg Parsons: Great. Well, again, we appreciate everyone's support. For those that are new to the platform, we welcome the opportunity to find ways to work together and for folks taking time to listen to us today. Thanks again.

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

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*Mr. Moe is affiliated with Semper Capital Management.