Semper MBS Total Return Fund and Semper Short Duration Fund
Quarterly Conference Call
July 30, 2020 4:00 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.

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: London Interbank Offered Rate, a benchmark rate that some of the world's leading banks charge each other for short-term loans.

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

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

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.

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.

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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 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 an investment recommendation. Any information provided with

respect to the fund is as of the date described and is subject to change at any time. Performance data quoted represents past performance. 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 speaker's 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 everyone, on behalf of myself, Tom and the entire Semper platform, I appreciate you taking some time to listen to the quarterly update for our two mutual funds, the Semper MBS Total Return Fund and the Semper Short Duration Fund. I am Greg Parsons, CEO of Semper, joined on the call by Tom Mandel, Co-Founder and CIO. As we traditionally do, we'll break the call into three parts. I'll give a quick overview of the firm, some top level thoughts on the market and the opportunity set, and Tom will take you a little bit deeper into the two portfolios and the ongoing value proposition we see in both investments strategies, and we'll conclude the call, and open it up to Q&A.

At the outset, obviously, it's been an interesting year in the structured product landscape. We at Semper Capital for those not familiar with the platform, we are a New York based registered investment advisor, we manage approximately $2.6 billion of assets, all of our energies are focused in the structured credit universe, with a heavy specialization within the mortgage-backed securities, both agency and non-Agency.

We're a privately owned shop, we are both minority and veteran owned, and we like to believe that we've got a two-pronged kind of strategic focus. The first is being very strong fiduciaries for our client assets and the second is being a very strong corporate community citizen. Currently, we manage across the risk spectrum in mortgages, with three bespoke strategies. We manage assets at the short-end of the curve in both mutual fund and separate account format in short-duration strategies. We manage a swath of assets in relative value mandates and we manage assets in total return format, long only/opportunistic, again, both in mutual fund and separate account format. Today, we have two U.S. mutual fund offerings, one Irish-based UCITS offering, and a host of separate accounts. We're 18 full-time and have office presence in New York, London, and Orlando. The firm has been managing dedicated mortgage accounts since late 2000, and we believe our size, our specialization and our focus offer incremental value on top of a sector that we believe continues to offer some, if not, the best relative value opportunity sets within the capital markets, hard stop.

As we've been articulating over the past few months, we are increasingly confident in the macro thesis that the dislocation we saw in our space over the middle of March/middle of April time period was really a supply/demand technical based dislocation. The level and velocity of price decline we saw was not a function of forward-looking bottoms-up perspectives of cashflows but again, a result of truly that perfect storm of supply/demand liquidity dynamics. And as we've marched over the time period post that dislocation, through May, June, July coming into August, we've been articulating a thesis and an expectation of value recovery. We've called it "value slippage", not "value destruction." And as both from a top down perspective, economic data continues to come out and to support that thesis, whether it be the continued strength in the real estate ecosystem, specifically home prices, whether it be employment numbers or unemployment numbers coming in better than expected, whether it be the continued pressure on rates, or from a bottoms up perspective, with the continued remittance data highlighting the fact that where the rubber meets the road, Joe Q. Public continues to pay their mortgage, remittance coming in lighter than advertised, or lighter than expected, delinquencies remaining stagnant, prepayments remaining elevated, from both a top down perspective and a bottoms up perspective, the data continues to suggest the continued recapture of value that we've seen over the past few months, continuing on in our space. We think about both the investment thesis of both products and their exposure to non-Agency and the viability and attractiveness of the funds as products to capture that opportunity. We're quite pleased with again, the performance over the past two to three months and both fund's ability to recapture assets, provide liquidity, pay off their lines of credit, et cetera, and continue to prove its vehicles to access the opportunity quite attractively positioned. I'll turn it over to Tom to talk more specifically about both portfolios.

Tom Mandel: Thank you, Greg and thanks to everybody for joining, we really appreciate having your time. And you know, my goal is to again, be relatively brief and then we look forward to the opportunity to either answer your questions, and to also answer any questions you have offline. We thought we would do it a little bit differently this time, in that we did send along links to a few documents that I'm going to reference, and hopefully, it makes it less confusing, rather than more confusing, if not, I certainly apologize. So my plan is to provide a brief update on the composition and the characteristics of the MBS Total Return Fund, which we call SEMMX as well as the Semper Short Duration Fund or SEMIX, and I'll also make some observations about performance, and also about the real estate and the mortgage markets. As most of you know SEMMX is our long-only unlevered total return fund, focused on mortgage-backed securities and we've just crossed the 7-year mark having launched seven years ago, this month. And the Short Duration Fund which has managed to be consistent with an ultra-short bond fund profile is also invested in structured credit, but we do it more broadly in the Short Duration Fund than in Total Return Fund. It's also long-only with no leverage and in the Short Duration Fund we're investing primarily in low duration, investment grade securities across agency and

non-Agency MBS, CMBS, ABS as well as AAA rated senior CLO tranches. We launched this fund back in December of 2010. So again, we've provided links to a few documents in the most recent conference call invitation that I believe went out yesterday, and again, if you don't have them, can't access them, I'm happy to send them to you later and happy to walk you through them offline.

As everybody knows, we're now about five months into this pandemic. And since our last call in late April, we've seen a fairly steady stream of positive residential real estate data which in our view is increasingly supportive of the value proposition that Greg reference in the non-Agency MBS, or RMBS, as we call it. Earlier today we saw an extremely low GDP Q2 figure, down 33% or so. You know, but in the midst of this once in a lifetime health created economic event, the resi market continues to perform very well and, in many ways, we believe it's the strongest part of our economy. For example, home prices have continued to rise through May in the 4% to 5% plus range, year-over-year, numbers from CoreLogic Case Shiller FHFA. There continues to be a very strong housing supply demand dynamics. The housing starts are down quite a bit, while mortgage purchase applications are up sharply, they're up around 15% year-over-year as the demand for home ownership continues to rebound sharply.

Greg mentioned delinquencies. Delinquent and forborne loans have continued to level off. And in many cases, we're now seeing them decline given the data that we are currently looking at, and generally this is below initially projected levels. We'll actually look at this a little bit more in a minute. And this is leading to some further reduction in COVID-led downside default and loss expectations by the street. Refinancing activity, which is really the other part of loan performance continues to exceed expectations, especially for agency-eligible mortgages but in many cases, for private label securities as well. The very fast prepayment speeds in agency CRT securities and continued steady prepayments for loans have overlapped with any of the GSE takeout provisions, have all been extremely strong. This continued refinancing is continuing to help de-lever deals which is increasing credit enhancement, it's reducing loss projections and in many cases, it's shortening average lives. All of this is positive with these bonds trading at a discount. The RMBS new issue market after being very quiet for a couple of months has continued to strengthen. In the last few months there have been over $20 billion of new issues in CRT, in non-performing loans, in non-qualified mortgage, or Non-QM securitizations, Single-Family Rentals, and RPLs. These deals have been in general, very well oversubscribed, in many cases 10 times oversubscribed. And in part because of this we've seen narrowing spreads across all of these sectors. Now despite that, we still have a very strong RMBS supply/demand technical, so net supply is going to be negative this year because new issuance will be lower, and prepayments are higher, so legacy paper and new issue paper is disappearing more quickly than originally projected. So, the overall market is shrinking and that is a real positive from a supply/demand standpoint. We continue to see

as a result of all this spread reversal back towards pre-COVID levels, despite a lack of any direct Fed or policy support for the RMBS space. And what we believe is that this is becoming an increasingly attractive relative value opportunity versus other risk assets. We don't see any near-term sources of significant downside, we certainly do not see any forced selling on the horizon, which was the source of our March price declines.

So next I'm going to talk just a little bit about loan performance by asking you to look at the remittance report, which you hopefully have access to. And this remittance data which is a report that we have built and have refined over time, and we're continuing to refine it to make sure that it gives us the most appropriate information in this environment. The key to how our market is doing and will do is fundamentals, led by this loan performance. We're getting this data roughly on the 25th business day of each month from servicers and we are then looking at it and we're slicing and dicing it across subsectors, individual securities and so on.

And it's providing us with information about number one, forbearance or delinquencies, and then number two, prepayment activity. So, in the top section of this document each row shows one particular subsector. We've put a sort of an oval around the third column. This represents a combination of Street and internal forbearance expectations, and again, forborne loans are loans that are not current today, but they are being made essentially at the approval of servicers. And if you look at the top handful of rows which represent agency credit risk transfer, subsectors, the Street was expecting a range of forbearance, of forborne loans of anywhere to 10% to 18% of the total loans supporting these deals. If you then skip across a few columns to the column that's titled "Forbearance" you can see the actual amount of forbearance through a month ago and if you just look at the first row, these are Freddie Mac credit risk transfer bonds supported by low loan to value securities, or loans, rather and only 6% of those loans were in forbearance as of a month ago. And actually, if you look at the data today, those numbers are actually a little bit lower. So, this is information over a month ago, the information we're looking at today actually is better, so these forbearance numbers are actually levelling off and, in some cases, declining. So, the Street has been expecting forborne loans to be 10% to 18% of these loans in fact, it's only been 6%, so well below the lower end of these projections. The next couple of columns show month to month changes. You can see that the month of May was much lower than the month of April, and then the information that we're looking at today that we've not been able to send out yet shows an essentially zero percent change. So the trend is attractive and we're starting from a level that is well below what the Street had been projecting. Now look at that second row, the second set of information down below, the first column that we've circled which is titled "One-month CPR" this represents the prepayment speeds for the same collateral. And you can see, the prepayment speeds are in general in 40s and as of this month, in the 50s for many of these types of collateral. 50 CPR essentially means in over one year, half of the loans would be paid off. So these very rapid

levels of repayments, which in some cases they're several times higher than they were a year ago and of course, this is being driven by very low interest rates, this is essentially resulting in very rapid delevering of many of these deals, which is a positive. And then finally, I wanted to point out, the final section that's highlighted here, called HPI/LTV, this represents loan to value for these different sectors in the portfolio that we're managing. And what you can see here is that the loan to value average around 63% for the overall portfolio, with a range of anywhere from 50% to the high 80s depending on the type of collateral and the type of securitization, and the inverse of that, so 33% is the amount of home equity in these loans, home equity is the single greatest determination of whether or not someone will ultimately default on their loan. If someone has 33% equity in their loan, they are very unlikely to default. So, all of this is a real positive from a credit standpoint for us and the information just continues to get better on a month by month basis.

Next I'm going to take a, just a very quick look at performance in the two portfolios. And I'm going to do that by asking you if you want to look at the two fact sheets that we also sent links to. So starting with SEMMX performance which is on the front page in the left of the fact sheet, the second quarter performance for the institutional class was 7.31% net and that compares to 0.67% for the Bloomberg Barclays MBS Index. So including July month to date performance which is a little over 1%, the share price of SEMMX has now increased from a low of $7.85 back on April 8th, to $8.72 yesterday, which represents about a 40% recovery of the NAV decline from early March, through early April. Interest income was a source of about 1.1% of performance during the quarter, while prices rose by an average of about 7% across the sectors, and I'll show you a little bit more about that in just a couple of minutes. Leading this recovery was the agency CRT sector, which returned around 25%, non-performing loan securitizations returned about 9% and legacy RMBS returned about 7%.

Turning to the Short Duration performance if you would take a look at page one of the Short Duration fact sheet, over on the left-hand side, the second quarter performance of the institutional class was 6.57% net, versus 26 basis points for the Bloomberg Barclays 1-3 Year Government Index. Including July month to date performance, share price has now increased from its March 25th low of $8.62 back to $9.40 and that represents about a 70% recovery of the NAV decline from early March. Interest income contributed 77 basis points to performance, and prices rose an average of 5.5%. The leading sectors in terms of performance recovery in the second quarter were Agency CRTs which returned 13%, NPLs returned 19%, and Single-Family Rental securitizations returned 10%.

So now I'm going to stay on the Short Duration fact sheet for a moment and if you look on the right-hand side of page one, we show a portfolio duration of 0.8 years. This duration is down from 1.2 years a quarter ago but remains a little bit elevated from the typical half a year duration

that we typically maintain. As these prices move back to par, our expectation for call and prepayment activity will continue to increase and this duration will move back down towards the half a year mark. The average price of bonds in the fund at the end of June was $98.77 and that's up from a dollar price of $93.00 a quarter ago. The portfolio SEC yield at the end of June was 2.10% which is a reflection of much lower rate and we expect it to remain close to 2% in this environment. And then on page two we show sector allocations as of June 30. So over on the left-hand side, starting at 12 o'clock, we have a 22% allocation to agency MBS, which includes CRT, that's up a little bit from 18%, a quarter ago. We have a 23% allocation to non-Agency MBS, down from 25% a quarter ago. Our CMBS allocation is 10.9%, our ABS allocation is just under 20%, and our AAA CLO allocation was 21%, all of these numbers very close to where they were a quarter ago, so we have not materially changed asset allocation and as we've been investing cash over the last quarter, we've been investing really across all of these categories. Over on the right-hand side, I wanted to point out duration, where we show again starting at 12 o'clock the percentage of bonds that have a duration of under a half a year, which is 66%, that's up from 48% a quarter ago. In contrast, a quarter ago, 21% of the portfolio had a model duration of 2-3 years and that today, is 11.5%. So again, as these bonds have recovered, and normalcy is returning to the market, our duration models and our average life models are really showing that these cashflows are pulling forward back really to where they were previously.

Now I'm going to turn back to the SEMMX fact sheet for a moment, again on the right side of page one. And here I want to point out that effective duration is 1.9 years which is down from 2.3 years a quarter ago. The percent of floating rate is 47% and that's down from 55%. So as we've made some allocation changes over this past quarter, we've done it in a way that we would reduce our floating exposure, because you know given this environment of extremely low rates, we're just not getting a lot of yield from floaters, so we wanted that to be lower. The average dollar price today is $88, were at the end of June is $88.41 and that's up from $78 a quarter ago. And then in terms of dividends you can see that the SEC yield at the end of June was 4.54% that's down from 5.25% a quarter ago, obviously reflecting the lower rates. The June dividend distribution rate was around 4.80%, July will have been lower at around 3.50% but our projected rate going forward is around 4%, and again that's a reflection of much lower interest rates. And then if you would turn to the back page, just very quickly we show starting at 12 o'clock on the pie chart on the left, the sector allocation where we have a 90% allocation to RMBS, a 6% allocation to CMBS, and again, these are primarily multi-family securitizations, they are not traditional conduit CMBS, and then, in the middle pie, we show our non-Agency RMBS allocations again starting at 12 o'clock. The first four categories, beginning with Prime, those represent the Legacy allocation which totals today around 25%. And then skipping down to NPLs and RPLs which represent legacy loans packaged in newer issue securitizations which total about 19%, that's down a little bit from a quarter ago, it was

22% a quarter ago. And then over on the left-hand side of that pie, the Jumbo 2.0, non-QM and CRT plus SFR represents around 50% of the portfolio, and in terms of the changes over the last quarter, the Jumbo is up to 31% from 27% a quarter ago, so we have added some allocation there and credit risk transfer is down from around 15.7% a quarter ago, to where it is today just under 12%.

What I'd like to do next is, we have a couple of pages called "Dislocation Tables," we have one for SEMMX, and one for SEMIX the short-duration. And I'll just spend a couple of minutes talking about the SEMMX page. So far across both of our portfolios, our bonds cashflows are acting exactly as we would have expected. And this dislocation impact page is one simple way that we can really demonstrate how the portfolios have been rebounding from this pandemic-driven liquidity event in March. We remain very, very confident that even at today's partially recovered levels, prices remain significant lower, relative to their fundamental value. So, if you look at the SEMMX, or the MBS Total Return Fund dislocation page, we show on here sector weightings, prices and yields over time, beginning with February 29th. So for example, if you look at the first row of information, this represents the approximate 24% allocation we have to Legacy bonds as of the end of June, and you can see how that allocation has changed from the end of February. Skipping over to the price columns, back in February 29, our legacy bonds had a market value average weighted price of $82.90. At the end of March these prices had fallen to $74.60 and then began recovering to where they were at the end of June at about $82.60. Now if you go down this June 30th column and compare it to the columns on the left, you'll see that essentially, for every one of these sectors, agency CRT, Non-QM, Jumbo 2.0 and so on, prices have been moving up in some cases slowly, in some cases rapidly from the March 31st lows, but these prices all remain at a discount and they all remain lower than they were back on February 29th. To the right of that you'll see five columns of yields. And these represent the average loss-adjusted yields for these subsectors at each of these points in time. Over on the right-hand side if you just focus on the June 30th yield for a moment, and if you look at the bottom of that column, you'll see a portfolio yield of 4.80. These yields are based on a very strong negative economic environment, that would be characterized by 20% unemployment rate, about a 10% decline in home prices, for example. We think that, in our stress scenario analysis, we obviously look at faster recoveries as well as much more severe economic scenarios as well. But what you can see here is that even at what I'm describing as a very serious recession, with employment numbers and home price numbers that are significantly worse than where they actually are today, we're still looking at a yield in the neighborhood of 5% for the portfolio. So again focusing on prices for just one second, you can see that, we started at the end of February with an average price of around $98, by the end of March we'd fallen to $80, and today we're back up to $88. So all of these sectors still have quite a ways to go. The one column that I skipped that I want to talk about now is average credit support. So, this represents on average for the bonds that we own in these sectors,

essentially how much credit enhancement do each of these bonds have? So for the Legacy row for example, the 7.9% number means that there would have to be at least 7.9% of lifetime losses in order for any of these bonds to take a loss. Well, the fact is that what will happen, in this case, these bonds that are being priced today at $82, these are not going back to par, they're probably going back around $85, because there will be additional losses. But if you look at the next row, the Agency CRT Last Cashflows these have an average credit support of 1.8%. and that contrasts with projected losses that we expect of 40 to 50 basis points. So losses could be four times worse, four times greater than we expect and none of these bonds would take losses. And this is a similar story across all of these bonds that we own, Non-QM, where we have 10% of average credit support, we're expecting 3% to 4% collateral losses. In the case of the Jumbo 2.0s where we have 1.8% of credit support, we're expecting 20 basis points or at most 30 basis points of cumulative lifetime loses from collateral, and so on. So this data, there's obviously a lot more that's behind this, but this gives us a tremendous amount of comfort in the fundamental quality of these portfolios. So our primary takeaway is that as time goes on, and as these bonds continue to perform the way we expect, that we do expect a very, very strong continued recovery from here. I would also say that some of the more credit intensive fiscal cashflows that we own have been slower to recover but they are now catching up. So bottom line of all this is that even in a very negative economy, with unemployment of 20% you know much worse than we have today, we would expect to earn 5% or so yield from here, which even in that scenario we think is a very strong relative value opportunity.

Just a couple of more comments, and then I'll pass it back to Greg. So you know, as you hopefully noticed we had a pretty strong recovery in May and June across the portfolios and across the RMBS sector, in general, but this sector really has largely paused so far in July, and you will see that, if you look at our performance this month for SEMMX it's around 1.75% month to date. So while the new issue activity has remained robust in our space, secondary trading volumes are down around 50% and in general, this trading activity is what drives our sectors prices. And of course, there's a number of--there's a number of reasons for this. The summer volumes are normally light and vacation activities are likely more amplified this year than ever before, and again, we're coming off a period of some very strong price depreciation, and it seems to us that investors and traders have just become a little bit cautious in a step back and we're waiting to move past this this latest uncertainty surrounding COVID headlines and policy support and we think we still may be a couple days away from really knowing what that policy support will look like next coming out of Congress. Also investors who are holding these bonds are still trading at losses to cost and these bonds are money good, these investors in this environment have little reason to sell the bonds, and buyers it seems to us are being patient rather than trying to aggressively buy and I think that's probably going to end soon. Plus, there is enough new issue paper to invest their excess cash. We firmly believe that this market environment that we're in today is going to change when we get into September. So, I

mentioned SEMMX performance, prices in the portfolio are up about a percent on average this month, and that's really across the board with the exception of agency CRT sector where we've seen just a touch of weakness. We think that, that sort of price weakness is based on some of the recent discussion of FHFA Agency capital rule proposals, which make it unclear how much issuance there will be at CRT, we think it's going to be fine and there's also been some negative press about CRT deals that were issued back in '13 and '14 sort of at the birth of the CRT space, which by the way we don't own in SEMMX.

We believe that as this month's remittance data gets digested and everything that we're seeing so far seems positive, that as Congress gets to settling in on an agreement on the next stimulus package and as vacations wind down, we're looking for price support to build again and especially given the relative value of these assets relative to other risk assets. So we are extremely optimistic with our outlook over these next few months and look forward to what comes next. At this point, I'm going to turn it back over to Greg and again thanks for taking the time to join our call and I'm very happy to answer questions now or certainly walk through some of this information in more detail offline.

Greg Parsons: Great, great detail of the portfolio. Again, in summary as Tom referenced, six different ways from Sunday, right, we remain excited and confident in both the absolute and relative value proposition of the sector and of our two funds on a go-forward basis. On the back of continued strong, both economic data top down and bottoms up. So, at this point in the call we'll turn it over to questions.

Operator: If anyone would like to ask a question, please press star and then the number one on your telephone keypad and I'll access your line. Star one to ask a question. The first question comes from the line of Troy Tunell, go ahead please.

Troy Tunell: Hi guys, thanks for the call. In previous calls, you guys have said "Hey listen, we expect SEMMX to go all the way back up to where it was, or very, very close." Is that still the case today?

Greg Parsons: Yes. I think we still expect that this was value slippage, not value destruction and the question is not will SEMMX recover, but it's a question of timing. And again as Tom mentioned, even in a world if you want to believe a severely challenged U. S. macroenvironment, right, so even if you believe the world is on path to some negative forward-looking assumption sets, even in that environment the portfolios are positioned to recapture their value faster versus slower, weeks and months, versus months and years. So you know we are increasingly bullish on those statements we've made that the price dispersion you saw March and April was I call it "value slippage", not "value disruption" and expect to capture that back in the coming months.

Troy Tunell: Music to my ears.

Operator: The next question comes from the line of Bruce Ackerman, go ahead please.

Bruce Ackerman: Thanks, for these attachments that you sent out, they're very interesting. And I have a question about the two dislocation impact handouts. The first line shows legacy and the credit support is 7.9% for SEMMX, and 45% for the legacy line on SEMIX. And could you provide some color to help me understand the difference in the two funds?

Tom Mandel: Yeah, absolutely. So in the Short Duration Fund, we focus on investing in investment-grade bonds, very few legacy bonds are investment grade, most of them have embedded losses, which is why the average dollar price is in the $70s and $80s for SEMMX because we are not constrained by sort of -by the credit rating, or by the duration. In the Short Duration Fund, where we're trying to buy again investment grade funds that have very short maturities, we're much more limited, so there's a very, very small portion of the legacy market, for example, that would qualify. And you can see the average dollar price of the legacy bonds that we own in the Short Duration Fund is in the mid-$90s. So that's really true across all of these sectors where there is overlap. In the Short Duration Fund we'll tend to own shorter and more senior bonds that are higher rated, shorter maturity, have lower yields and lower performance expectations over time.

Bruce Ackerman: Thanks, Tom.

Tom Mandel: You're welcome.

Operator: The last question we have in queue is from the line of Matthew Kroehler, go ahead please.

Matthew Kroehler: Hi good afternoon. Can you talk a little bit about, I may have missed this but how much is in SEMMX, how much is maturing each month and what you think that might add to prices over the rest of the year? Thanks.

Tom Mandel: Yeah, well in SEMMX the Total Return Fund, we have principal paydowns of typically we'll call it 0.75% a month more or less, and it can be a little bit lumpy. So over the course of the year we could be getting back 8-10% of principal, which of course we're getting back at par. So the fact that these bonds are fully amortizing, does mean that they're going to shorten more quickly they're going to get pulled back to par more quickly than if you owned a bullet. Most of these are not actual maturities but they're pre-payments, either they're scheduled principal payments, or they are unscheduled prepayments. In the Short Duration Fund, it numbers more

like 2 or 3% a month that we're receiving, which is consistent with much shorter average life of the portfolio. So, it is ultimately I think, a very strong supporting factor for the price of these bonds.

Matthew Kroehler: Thank you.

Operator: There are more questions in queue if you want to take them?

Tom Mandel: Sure.

Operator; Okay so next one is from Jackson Beck, go ahead please.

Jackson Beck: Hi, could you help me understand the lower dividend payment for SEMMX in June, considering the prices are still lower?

Tom Mandel: Yeah, well so there's a couple of reasons, so SEMMX dividend is based on interest income, net of fund expenses and it's also based on paydown gains. So again, if we bought a bond at $80 and we get a principal payment back at $100 in advance of is maturity, then that difference is paid out as a divided. So, number one, interest rates are a lot lower, a lot of what we own, around half of what we own is in floating rate coupons that reset over one-month LIBOR with a delay, and so, we had a lot of coupons resetting much lower as LIBOR fell by about 1.5% over this few months period. So, we had lower interest income, number one, number two, we had a couple of months of lower gains on paydowns. And again that's a bit of a lumpy number so we'd expect it to bounce back up. But that's the absolute number and then the distribution rate of course is impacted by the fact that the NAV has been going up although it is still at a lower level than it has been.

Jackson Beck: Thank you.

Operator: The next question comes from the line of Michael Gibbons.

Michael Gibbons: Hi guys, I've been on a few calls and previously we've talked about potential catalyst for NAV return being support from the government and you had been optimistic about that maybe being the case. With some of the economic factors you're seeing being more positive than expected, is that something you still see as a possible catalyst?

Tom Mandel: I think it's certainly possible. If you look back at the last recession, it took the Fed a couple of years before they really jumped in with some of their programs that had a positive impact. So I think that there's absolutely, if this recovery were to faulter at all I think there's absolutely

the likelihood that they would do something that would more directly impact us, in a positive way. But short of that I mean I think if we stay on today's path, probably there's nothing direct that's going to happen, but their continued support of other risk assets and the Fed's continued purchased of agencies certainly is a big help indirectly.

Operator: Next question comes from Brian Langan, go head please.

Brian Langan: Hi guys, thanks for the call. Can you just give me the size of the funds right now, the Short Duration, how much money's in that right now or if there's anything on the credit facility and the size of the total return, and same question?

Greg Parsons: Sure. The Total Return Fund is about $1.25 billion at the fund level and has nothing drawn on its credit facility. The Short Duration Fund is about $450 million and again has nothing drawn on its credit facility. So both funds we are excited about how both funds are positioned from an AUM perspective and from a liquidity perspective.

Brian Langan: Okay, great. Thank you.

Greg Parsons: Let's do one more question.

Operator: Okay the last question comes from the line of Terrance Rebello, go ahead please.

Terrance Rebello: Hi Greg and Tom, thanks for the call. Just three questions, what is the AUM of Semper right now and then for the total return, spread duration and any geographic concentration that you can talk about?

Greg Parsons: Firm level AUM is about $2.6 billion and I'll defer to Tom on the other two.

Tom Mandel: Spread duration of the Total Return Fund is around 3.5 years and in terms of concentration it's very much driven by the sectors that we are invested in. So for example, the agency CRT sector where we have a decent size allocation, just as an example, about 16% of those loans are from California, around 8% from Texas, and then around 6% from Florida, in contrast with that if you look at the non-performing loan securitizations, which again we have a decent allocation to, they have about a 20% concentration in New York and 16% in New Jersey. So instead of being Southwest and West centric, they're more Northeast centric. So, each sector's really very different, clearly, the states of, California, Florida and New York have the largest allocation across the board and at the portfolio level. But it's pretty much as diversified a portfolio as it can be.

Terrance Rebello: Thank you so much.

Tom Mandel: You're welcome.

Greg Parsons: Well great, on behalf of Tom, myself and the entire Semper platform, we appreciate- for those that have invested in the product your support to date, and for those that are interested and finding time to listen, obviously myself or Tom are available for offline if there's more questions or information needed on the products. So hope everyone has a great afternoon and stay safe. Thank you so much for the time.

Operator: This concludes today's teleconference; you may now disconnect your lines.