Semper Short Duration Fund Quarterly Conference Call

September 28, 2017, 11:30 a.m., E.T.

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

Definitions:

Cash Flow: Mortgages typically have required monthly interest and principal payments which are collected by servicers of mortgage-backed securities trusts, which in turn distribute these payments to MBS investors.

Duration: Measure of a bond or bond portfolio's sensitivity to changes in interest rates. Generally, the longer the duration, the greater the price change relative to interest rate movements.

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

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

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

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

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

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.

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

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.

Indicated yield: The dividend yield that a share of stock would return based on its current indicated dividend. The share class referenced on the conference call is SEMIX.

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

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

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

Morningstar Proprietary Ratings and Percentile Rankings reflect risk-adjusted performance as of 8/31/2017. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history, without adjustment for sales loads. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating™ for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating™ metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. The Semper Short Duration Fund received a 5-Star Overall Morningstar Rating™ and 5-Star 3-Year Morningstar Rating™ among 135 ultrashort term bond funds and 5-star 5-year ranking among 101 ultrashort term bond funds. These ratings are specific to SEMIX and SEMRX. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. As of 9/30/17 SEMRX ranked in the top 4% over the 1 year period among 165 ultrashort bond funds, the top 3% over the 3 year period among 135 ultrashort bond funds, and the top 7 percent over the 5 year period among 101 ultrashort bond funds. **Morningstar Percentile Ranking** compares a fund's Morningstar risk and return scores with all the funds in the same Category, where 1% = Best and 100% = Worst The information contained herein (1) is proprietary to Morningstar (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 sue of this information.

Past performance does not guarantee future results.

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

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

Average credit quality gives a snapshot of the portfolio's overall credit quality. It is an average of each bond's credit rating, adjusted for its relative weighting in the portfolio.

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

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

Operator: Ladies and gentlemen thank you for standing by. At this time I would like to welcome everyone to the Semper Short Duration Fund 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 the 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. I would now turn the call over to Greg Parsons of Semper Capital Management.

Greg Parsons: Good morning. I want to start off by saying thank you for calling in today for our very first quarterly conference call for our Short Duration Fund. My name is Greg Parsons and I am the CEO Semper Capital Management.

I'm joined on today's call by Tom Mandel, co-founder of the firm and a Senior Portfolio Manager on the investment team. As we have done historically with our MBS (Mortgage Backed Securities) Total Return Fund calls, Tom and I plan to spend 15 to 20 minutes providing an update on the Semper Short Duration Mutual Fund, an ultrashort duration structured credit-focused mutual fund that Semper Capital launched in December of 2010.

We'll break the call into three parts. First a quick update on Semper and what we're seeing the overall markets. Second Tom will provide an update on the fund and an overview of our outlook, and last we will open it up for questions.

As many of you know Semper is a privately-owned asset management platform that focuses our efforts on opportunities within the structured credit space. Specifically, residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and asset-backed securities (ABS). Our AUM is now over $1.8 billion and it spans a wide range of structured credit strategies that include absolute return, total return, and index-based solutions. Our skill set is available across multiple product formats to include institutional separate accounts, private funds and public funds. I'm excited to say that we just crossed the 25 year mark since our founding in 1992, and a separate fund, our MBS Total Return Fund, has crossed a billion dollars of assets. Our platform is the strongest that it's ever been with respect to people, resources, products -- and we believe our distinctive positioning within the structured credit space will allow us to continue to capitalize on opportunities for our clients and partners.

You know as I mentioned let me share some quick thoughts as related to the opportunities we continue to see in market. As we mentioned on previous MBS Total Return Fund calls, even at today's levels with most non-agency mortgage-backed securities and other mortgage and structured credit sectors at or close to pre-crisis tights, we continue to see opportunities to drive value on both an absolute and relative basis within the credit sensitive portion of the structured credit universe. Strengthening real estate credit fundamentals, the structure of the market and strong technical factors continue to work together to create what we believe to be one of, if not the best source of risk-adjusted returns within the fixed income landscape. With respect to credit fundamentals, home price appreciation has continued to be extremely strong over the first half of 2017 and continues to outpace expectations. Meanwhile, more importantly, home affordability remains attractive compared to historical levels.

Second, as the universe of these legacy assets continue to season and the overall credit quality of the residential real estate space continues to improve, we see growing opportunities for a nimble, opportunistic strategy to invest in attractively valued real estate-related debt securities. While the non-agency legacy RMBS market is now roughly 500 billion in size, which we think might present a challenge for some of the larger players in our space, we continue to be able to aggressively navigate opportunistically. Our size, both at the firm level and at the fund level, allows us to take advantage of these opportunities that our competitive set just can't access.

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

All of these continue to make RMBS a great diversifier, a good anchor investment, and very strong driver of returns within a short duration strategy.

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

Tom Mandel: Thank you. I am really looking forward to talking about the Short Duration Fund, which as Greg mentioned we launched back seven years ago, in December of 2010, and given this seven year period, we've developed a lot of good data and history to support our excitement for this strategy. While our discussions with investors for the past few years have focused primarily on how mortgage credit can add value to a total return portfolio, we are equally convinced that this sector and related structured credit sectors can also form the basis for an attractive short duration fixed income strategy and since this is our first call I'll focus on a higher-level overview, but I would absolutely welcome any questions, either at the end of this call or at any time later, at your convenience.

We think this is a really timely discussion. While intermediate Treasury yields have been in a relatively low and narrow range, short rates have been quietly rising. The 2 year today is close to 1.50%, and of course the yield curve, as a result, has flattened quite a bit.

Our view is that monetary policy in the U.S. and in a sense, more globally, is becoming less accommodative, and so, we expect yields on the short-end of the curve to continue to gradually rise. And not only are these types of securities positioned to have lower price declines in response to rising rates, if at all, the floating-rate and very short securities that we're able to invest in allow for reinvestment at higher yields. About half of the bonds in this fund are floating-rate, resetting either monthly or quarterly. And over the last couple of years, we've seen these coupons rise by about 1 %, as the Fed, as you know, has gradually increased their target Fed funds rate.

I'll get more specific about the fund's composition but in general, the fund invests in structured credit with low interest rate sensitivity, including some of the following sectors: agency MBS or mortgaged-backed securities, legacy non-agency RMBS, including prime, some Alt-A and also subprime bonds, next generation non-agency paper – non-agency mortgaged-backed securities paper including government agency credit risk transfer deals or CRT; Re-performers and some new issue private label securitizations, among a few others. We're investing in agency multi-family securitizations, which fall into the CMBS category. Also single asset single borrower CMBS, I mentioned single family rental securitizations, and a number of asset-backed structures, along with some AAA rated senior collaterized loan obligations (CLO) tranches.

This universe that we invest in, is in fairly sharp contrast to many short duration or ultrashort duration funds that, in contrast, tend to invest in either government securities or in corporate credit. We seek to manage the fund to have a portfolio with overall investment-grade credit quality, with interest rate risk or effective duration well below one.

The fund has two share classes, an institutional class with the ticker SEMIX and an investor share class with the ticker SEMRX, which has a 12b-1 fee. It's available on many dealer platforms, in addition to being available for purchase directly. Our fund website semperfunds.com has a great deal of information available on it about the fund. The fund is in Morningstar's ultrashort bond fund universe, and for the trailing one-year, three-year, and five-year periods ending August 31st, it ranked in the top 5% of all the funds. And the fund has a five-star Morningstar overall rating.

Here's a little bit of performance data. Year-to-date through the end of August, the Short Duration Fund institutional class returned 2.38%versus 0.89% for the primary benchmark index, which is the Bloomberg Barclays 1-3 Year Government Index. For the trailing one year, the institutional class returned 3.47% net versus 56 basis points for the index. Annualized from its inception back in December of 2010 through August 31st, net performance was 2.54% for the institutional class versus an index return of 0.84%, which is an excess return of 170 basis points per year. The fund's total rate of return has been positive for each of the last 18 months and it has been positive for each of the calendar years since it started. The primary source of performance year-to-date has been interest income, which has totaled about 2%. While we do actively manage the portfolio, because most of these securities are relatively short and high quality according to the credit ratings, we generally don't see much price movement. Prices have risen a little bit over the course of the year. In fact the share price has stayed in a range of 9.86 to 9.93 so far this year. The fund pays a monthly dividend, based on August dividend, the indicated yield is 2.38% and over the last year, the yield has been 3.19%.

Allow me to next provide some additional information about the composition and structure of the fund. So today the portfolio is made up of about 16% government guaranteed paper, which includes both Treasury bills and agency mortgage securities. It has a 23% allocation to non-agency RMBS and that consists of about 3% in prime plus Alt-A, about 7% allocation to the subprime, a 3% allocation to agency CRT and about a 10% allocation to RPLs, or Re-Performing Loan Securitizations and other new issue private securitizations. 23% of the portfolio is in CMBS, which includes an allocation of about 15% to legacy and new issue conduit and single asset single borrower deals, as well as about 2% allocation to small business commercial loans, and another 5% to single family rental securitizations.

21% of the portfolio is in asset-backs. About 17% is made up of a various number of different kinds of esoteric deals, including a receivables, receivable financing, auto and subprime auto, student loans, as well as an allocation to real estate ABS, a 12% allocation to AAA rated senior CLO tranches and some other structured credit instruments and then a 5% allocation to cash equivalents. So, one third of the portfolio is invested in securities with direct residential real estate credit exposure and the entire portfolio is either supported with mortgages or other assets securitizing the bonds, or is government guaranteed. We don't own any corporates or other unsecured paper.

During our last couple of MBS Total Return calls, Greg and I had talked about agency CRT, Re-Performers, Single Family Rentals or SFR and some of these other next generation RMBS. This, in our view, is equally important for the Short Duration Fund, which has about one half of its residential real estate credit exposure in these newer issue securities. These securities help to support the portfolio's quality, and importantly its liquidity, and also provides us with some new and exciting opportunities to add value through active management. And, this also significantly increases diversification across a number of metrics.

Another investment characteristic that our two mutual funds share in common is the value of voluntary pre-payments for discount securities. The short duration fund's average dollar price for the subprime bonds we own is about $96. Over the last couple of years, we've seen an approximate doubling of pre-payments in this sector, which is clearly a positive for the timing of cash flows and fund performance and we expect this to continue, even as short rates continue to rise.

The portfolio has more than 90% of the portfolio invested in investment grade securities. The portfolio's yield to maturity is 2.8 %. It has an average coupon of 2.6% and an average dollar price of just under $99. The effective duration or interest rate sensitivity to portfolio is 0.7 years, which is roughly equivalent to the interest rate sensitivity of a nine-month Treasury bill.

And we're getting this low rate sensitivity from a couple of sources. First, many of the securities have very short final maturities or very short average lives. And as I mentioned before, over half of the portfolio has floating rate features. So as the Fed slowly raises the target funds rate, and as LIBOR and other reference rates rise in concert, the coupons on these securities rise as well which, of course, raises the yield of securities and helps to support the prices.

Next, I'd like to mention a couple of other key highlights of the fund. One is turnover. Turnover's been running at about a 100% annual rate as we continue to frequently find value adding relative value trades. This has been fairly consistent over the last couple of years and we increasingly believe that our size remains a significant advantage in this market. And our view that we are right sized will be a growing advantage over time, in our opinion. The fund is long only, has no leverage or hedges, and we have no plans to change that. We're extremely comfortable with the level of credit risk that we're taking and in our view, both liquidity and interest rate risk are favorable for this fund. We have a borrowing facility from U.S. Bancorp. They are our fund custodian and administrator, which is equal to 20% of assets. And it can only be used for redemptions, which of course is another strong source of liquidity in addition to the near cash and cash positions that we maintain.

In terms of our forward-looking outlook, we increasingly believe the legacy and new issue non-agency RMBS market and related sectors are appropriate places to be in the near to intermediate term. This continues to develop into a relatively high yielding space with continued low correlation to other asset classes that we believe will be well protected in most scenarios. We believe that these bonds will continue to perform well in virtually all of the likely economic and market scenarios that we're envisioning. We expect them to hold in if short rates continue to rise. We expect them to hold in if we have another risk off environment like we had during the first quarter of 2016 and during that quarter the fund actually generated a small positive return.

The other structured credit bonds that we own, in addition to the RMBS, should do equally well. They are generally short cash flows with significant over-collateralization. It's true of the CMBS positions we own, the AAA rated senior CLOs, as well as the investment grade rated sub- prime auto loans, just to name a few.

Looking at correlations our fund has had a fairly low correlation of .35 to the Morningstar ultrashort universe that we are in. It's got an even lower .16 correlation to the 1-3 year Government Index. It's got a .05 correlation to the S&P 500, which is, not unexpected and it's got just a .36 correlation to the aggregate index.

As an aside, we also of course have been carefully monitoring the recent hurricane damage in Houston, Florida and Puerto Rico. In the Houston market we had actually reduced our exposure quite a bit a couple years back, because of our concern about the economic impact of falling oil prices.

Agency mortgage securities are certainly in the news currently. As you know the Fed owns about $2 trillion of these securities, and has been reinvesting proceeds of pay downs for years now and they've announced that starting next month, they're going to gradually reduce the amount that they're investing initially by $4 billion per month. The market has taken this news in stride so far, although we certainly do expect at some point that agency mortgages should widen relative to Treasuries and swaps. But in general, we believe that this sector is one to avoid in this fund, today. We have about a 2% allocation to some very seasoned securities in the agency space, but in general, our view is that yields are low, durations are relatively long and the risk of duration extension is great. So, again we're avoiding in general agency collateral currently.

So, just to summarize we believe we're positioned appropriately for the environment we're in, which includes the prospect for some volatility and yields and the potential for some volatility in risk assets.

We will continue to position the portfolio with low duration with appropriate levels of liquidity and solid yield so that we can target a solid monthly return, largely again, from interest income while we seek to manage downside volatility and at the same time we intend to continue to buy and trade opportunistically as the market permits. And as I had mentioned before we're confident that our small size and ability to be nimble is increasingly valuable.

So, just to sum up we think that this combination of yield and rate insensitivity will position the fund well going forward within the universe of bond funds, as well as specifically within the universes of short duration and ultrashort bond funds.

Thanks very much for your time and I will pass it back to Greg.

Greg Parsons: Thanks, Tom. We're very excited to begin raising the profile of our Short Duration Fund with today's call. The fund has nearly a 7 year track record, and has billions of dollars of additional capacity to grow. We remain very upbeat about the opportunities we are seeing in the market to drive value, and I want to thank those on the phone who are already investors for their support to date.

I'd like to mention that if you go to our funds' website, www.semperfunds.com, you can find a great deal of information about our views on the market, along with stats for both of our mutual funds, including our MBS Total Return Fund, which I should again mention just crossed a billion dollars in assets this past month.

You will also see on our firm websites some very important initiatives that we as a team support, including many veteran advocacy platforms and housing programs. If there's anything we can be providing or telling you, please do let us know. At this point we will open it up for questions.

Operator: Thank you. Ladies and gentlemen, at this time to ask a question, please press star one on your telephone keypad. Again, that's star one to ask an audio question. We'll pause for just a moment to compile the Q and A roster. Again, to ask a question please press star one on your telephone keypad. And at this time there are no questions.

Greg Parsons: Well great. Again, on behalf of Tom and myself and the firm, we appreciate the support and taking time to listen. At this stage we'll end today's call. Thank you very much.

Operator: Thank you, ladies and gentlemen. You may now disconnect.