



Semper MBS Total Return Fund Quarterly Conference Call

October 1, 2015, 11:30 a.m., E.T.

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

Disclosures:

Earnings growth is not a measure of the Fund's future performance. 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. Gross Expense Ratio: Institutional 0.90%. Diversification does not assure a profit or protect against a loss in a declining market. Liquidity Risk: Low or lack of trading volume may make it difficult to sell securities held by the Fund at quoted market prices.

SEC Yield: Subsidized 4.14%/ Unsubsidized 4.14%

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.

Empirical Duration: The ex post interest rate sensitivity of a bond.

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.

Barclays U.S. Aggregate Index: Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. One cannot invest directly in an index.

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.

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 current views of the participant 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 and is not a guarantee of future results. After the speaker 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: Hello I want to say a quick thank you for calling in to our quarterly call. For any of our existing clients thanks in advance for the support to date and we look forward to updating you on the fund. And for anyone else joining we look forward to introducing you to the firm and our product. My name is Greg Parsons CEO of Semper Capital Management and I'm joined on the call by Tom Mandel co-founder and the senior managing director of the firm. Tom and I look forward to spending a few minutes updating or introducing you to the Semper Total Return Fund, a mortgage centric mutual fund we launched in the summer of 2013, a little more than two years ago. We'll divide the call in to three parts. I'll give a quick update on the platform. Tom will discuss the fund and many of the market dynamics that we are currently seeing and then we'll open it up for questions. So Semper is a fixed income boutique and we currently manage approximately \$1 billion of assets across the firm. I'm extremely pleased to say that the Total Return Fund has become our largest single product and the primary focus of the firm and we've recently crossed \$400 million of AUM.

We continue to believe our structure, size, and the investment team's skills add a distinct source of value to the fund offering. Our team focuses on opportunities in the structured credit space specifically residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS). These strategies include absolute return, total return and index based investments solutions and we offer these strategies across multiple product formats to include institutional separate accounts, private funds and public funds.

We're a privately owned firm that invests alongside our clients ensuring alignment of interest with the Total Return Fund as well as our other products. Having been founded in 1992 we've been providing our fixed income expertise to a wide range of clients for over 20 years. Our highly skilled investment team is supported by a robust infrastructure that leverages strong human capital and has a continual focus on operations, compliance and risk management.

Before turning it over to Tom to talk about the product and the opportunities we see I'll close with some high level comments as it pertains to the opportunities. First we continue to see opportunity 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 continue to exist within the roughly \$900 billion of addressable opportunity continue to

provide a very solid foundation for attractive risk adjusted returns. Second, we believe we're extremely well positioned in the market allowing us to be quite nimble and opportunistic in exploiting opportunities that exist in this space.

Our senior investment team averages well over 20 years of experience in the business and as volatility remains high and the economic and monetary policy cycles slowly move forward, we believe this experience is paramount. Finally as the universe of legacy RMBS continues to season and the overall credit quality of the residential real estate space continues to improve and the risk return opportunities evolve, we see continued if not growing opportunities for a smaller yet institutional quality structured credit research driven firm like Semper to invest in attractively valued securities that are either not on the radar screen or falling off the radar screen of larger money managers.

From a risk management standpoint two critically important elements in this market is we approach the end of 2015 are the impact of interest rates and liquidity. With respect to rates, you know, we at Semper continue to believe that the Fed is on a path to raising their target interest rate imminently and the implications are important. Semper, as do most fixed income managers, believes that the RMBS, CMBS, and ABS sectors are particularly attractive in terms of a relatively low sensitivity to rising rates.

With respect to liquidity while it's been a growing topic across the fixed income market certainly for the last few years and the focus on liquidity has continued to intensify, our firm puts risk management first and within our risk management framework liquidity is one of if not the most critical focus in driving the investment team's activities. I'll now turn the call over to Tom to talk more specifically about the funds.

Tom Mandel: Thank you all for taking time to listen to our update. We're excited by the increased interest in our fund we've garnered recently and look forward to spending a few minutes talking about the fund. I'm Tom Mandel and for those of you who are new to the firm I'm a co-founder of our firm and one of the senior investment team. So starting with the brief history of the fund: we started back in July of 2013. So as Greg mentioned we've crossed 400 million and we're now a couple of months in to the third year of the fund.

The fund is designed to invest primarily in mortgage securities and from the time of our launch through now our primary sector concentration has been in legacy non-agency residential mortgage-backed securities or RMBS. U.S Bancorp who is a leading bank in the MBS custody space is our fund administrator and our custodian. The number of ways that you can invest in our fund including on broker and clearing platforms offering the fund continues to grow; and by the way we keep this list of available platforms on our mutual fund website which is SemperFunds.com.

If any of you at anytime have questions about how to purchase a fund directly or through one of this platforms please contact me or anyone at the shop. And again at this point we're now approved at virtually all clearing platforms that your firms may utilize. Before I talk about performance and positioning I just want to reiterate Greg's point that risk management is really critical, paramount in our activities. We believe that we're very good at assessing mortgage credit risk and in fact that is the risk that we want to be taking and we believe that we're paid for taking. However there are a great number of additional risks that we're evaluating and managing every day, including liquidity risk which has been a growing focus in the fixed income markets. Macro or systemic risks, and we seek to find ways to keep our correlations low to other markets as well as interest rate risk. We believe that this sector really lends itself to effectively mitigate and manage these risks.

Now let me talk about fund performance for a minute. So as you know we've just finished the third quarter. We've completed 26 months since launching the fund. For the first nine months of 2015, the institutional class has returned 3.77 percent net versus 1.61 percent for the Barclay's MBS index which is our primary benchmark and versus 1.13 percent for the Barclay's Aggregate index. Annualized performance from inception back in July 22nd of '13 through yesterday, our performance has been 10.03 percent net again for the institutional class versus the MBS index return of 3.72 percent. For the trailing one year, performance has been 5.06 percent net for the institutional class versus 3.43% for the index. And for the three month period that just ended we've had a performance of positive 1.15 percent net.

So this positive performance has continued in the midst of – of what clearly has been increased volatility in rates and in risk sectors, increased questions about the Fed, market liquidity, China's growth and more, and during what we continue to believe is the beginning or at least a hint of the beginning of the next phase of the bond market and of monetary policy which we believe has a bias towards higher yields. During the second quarter we saw the two year treasury rise by about 15 basis points to 70 basis points and the 10 year treasury rise to about 2.45 from right around two percent. But during the three months that just ended, rates reversed. The two year is now back down around 60 basis points, now roughly unchanged year to date, and the 10 year is now lower than it was beginning of the year at about 2.05 percent. And the reasons for these recent declines in yields are well reported including weaker emerging markets, slowing growth in China, rising volatility in risk markets, persistent low inflation and dollar strength and of course the Fed's delayed target Fed Funds rate rise. But the critical story for mortgage credit which remains the same and which again is the risk that we are willing to take is continued improvement in residential real state credit fundamentals. So we believe that's the story worth retelling. Home prices are still going up. It looks like they will go up about five to six percent nationally this year. Homeowners are getting more and better jobs, rents continue to show increasing strength and we continue to see continued improvement in many parts of the commercial real estate market. During the second quarter it was reported that another approximately 760,000 home owners moved back to a position of positive home equity. At the high point of the recent sub-prime crisis about one third of homes were underwater; now it's about 10 percent. So housing is getting healthier and that improves credit quality of the bonds that we buy.

So as a result in the midst of this – in the midst of all of this, legacy RMBS continue to show more resiliency than most other fixed income sectors with most prices holding roughly steady although down a couple percent from their highs in early spring with of course some movement around the edges. Most of these declines have come during the summer and we believe that this pause in price increases has been healthy for the RMBS sector, we look forward to additional spread contraction looking forward. The forces supporting this sector which in our view making an attractive sector investing today continue. So again just to name a few, number one we've talked about the improving fundamentals. Number two, this market offers a very attractive, in our view, ratio of yield relative to interest risk compared to other sectors. So for example our fund's loss adjusted yield to maturity is approximately five percent compared to a duration of about two years. The overall market as measured by the Barclays Aggregate index has about a three percent yield versus duration of closer to five years. And third, market technicals continue to improve also. Again from a continued reduction in supply, the legacy RMBS sector is contracting about 10 percent a year although still more than large enough for us to be investing in, and still as large as the market was back in 2004, combined with continued interest by a varied diverse range of institutional investors.

Next, talking briefly about current portfolio composition - and for additional details please either contact me, or again look at our website where we keep additional statistical information. The portfolio remains very well diversified across a number of metrics. We have about 300 securities in the portfolio, it's well diversified across sectors, sub-sectors, diversified by vintage, by geography, by the types of borrowers and more. In terms of the sectors, at the end of September the non-agency RMBS position in the portfolio was around 60 percent. That's down a little bit from about 65 percent at the end of June. The ratio among the RMBS though, Prime versus Alt A and Sub-prime remains about the same, about 35 percent of our non-agencies being the Prime space about 25 percent in the Alt-A space and about 40 percent in the Sub-prime space, and again many of the Sub-prime bonds we're buying are very short. They are senior, they have very little downside credit risk in our view because of their credit improvement and significant seasoning. Our CMBS positions total about 12 percent down from about 17 percent at the end of June. Asset-backs are roughly unchanged in high single digits and in terms of cash we're currently holding about a 10 percent cash balance and then about a 10 percent allocation to agency pass-throughs. Of course that 20 percent in cash and agency pass-throughs is providing immediate liquidity.

So we've modestly increased our allocation to agency MBS and modestly reduced our exposure to RMBS and CMBS - it was important for us to make sure that we were providing significant liquidity during this what I would call a more turbulent period that we've seen over the past few months. The duration of the portfolio remains close to two years with the empirical interest rate sensitivity being even lower than that. The assumptions that go into our duration calculations are very conservative in our view so for example we are assuming very low pre-payments.

We've continued to look at the effect on prices and performance of our securities from changes in interest rates since inception. And although rates are lower we certainly have seen some periods of rising rates. Prices have remained extremely stable and performance remained stable during these periods of rising rates that we've seen. Performance has been positive each month of this year and in fact it's been positive in each month since our launch. The average dollar price of the portfolio, the weighted average dollar price, is a little higher than it was at the end of last quarter. It's at about \$89 right now versus a cost of about \$88. And this slightly higher price is, we think, reflective of paying for slightly more liquid securities in this most recent environment, which is important and that's a major contrast to the agency MBS market which still has an average price of around 105. Of course one of the benefits in investing in cash flows below par, is that if pre-payments do end up being higher than we are expecting, the timing and the value of these cash flows improves and results in improved performance for the securities that we own.

In terms of other key characteristics, a critical metric and what remains our number one risk management focus, is liquidity. Our targeted liquidity for the portfolio or the portion of the portfolio that we believe we can sell at current fair value remains at 20 percent in a day, 50 percent in two weeks and close to 100 percent in a month. So we believe we can liquidate securities in current conditions in line with our targets and our success in meeting expected routine redemption activity over the last several months has continued to help give us proof of that.

I mentioned earlier that much of the universe has been outstanding for several years. So in terms of seasoning about 60 percent of our securities are vintage 2005 or earlier. In terms of Sub-prime positions that we own 70 percent is vintage 2005 and earlier. That of course is important because we have more and more data available about those borrowers and how those securities act, and of course, underwriting standards back then were a little bit better

than they got to in 2006, 2007. In terms of seniority, 60 percent of our RMBS are senior, again important because of the structural seniority providing protection to these bonds from losses that result from defaults. And it gives us a sense of how much protection we have in stress scenarios, not unlike portions of bank stress testing.

We have about 50 percent in floating rate securities and to the extent these borrowers are stronger from a credit standpoint and they can withstand modestly rising mortgage rates, these bonds have some incremental price protection from rising rates because of those floating rate characteristics. Turnover continues to be appropriate, it's been averaging about 10 percent a month since inception. During these couple of very quiet summer months we averaged about 50 sales per month so we believe this is a reflection of our continued ability to identify value, to trade efficiently, and a reflection of liquidity for a small and nimble firm and fund like ours; we think that's very critical.

The portfolio's gross loss adjusted yield to maturity is about five and a quarter percent, roughly the same as a quarter ago for the institutional share class. This yield to maturity is based on our expectation for future underlying mortgage loan defaults which we continue to believe is conservative. And as a result of that conservatism the dividends for the fund have actually been higher than the portfolio yield, about five and a half percent over the past year. Performance attribution remains roughly unchanged relative to what I said last quarter; interest income has contributed about 80 percent of our fund performance over the past year.

Gains through trading - and again we believe we can be more nimble because of our size - has contributed about 10 percent of fund performance and then realized gains from pre-payments which again is coming from buying these bonds at a discount added nearly another 10 percent. We've continued to have modest negative performance from the CMBS positions that we've owned. CMBS has been a challenging sector over the last several months.

Our current views on sectors thematically remains the same as our discussion a quarter ago. We believe that value remains for many portions of the legacy RMBS market and of course we continue to pay particular attention to liquidity. The market is still absolutely large enough at 750 billion or so in legacy RMBS alone. It continues to be more fragmented, continues to be more seasoned, 70,000 cusips and at this point many over 10 years old. Still a tremendous amount of opportunities for us. Cash flow credit quality continues to get better, interest rate sensitivity overall continues to decline and the technicals continue to improve modestly. We continue to find micro-sectors that are offering attractive complexity premiums that in many cases have very little sponsorship and that is an opportunity for us to generate higher returns - it's an opportunity that's available for one who's willing and able to do work which we are.

In the CMBS space we will continue to remain cautious for some time; and new and emerging sectors like non-prime deals, credit risk transfer deals, they are certainly of interest to us, they are very deal specific, very collateral specific but many of them are offering good opportunities now. As Greg articulated we believe that we're well positioned within the space and as a small yet credit research intensive shop you know we can focus on these less well sponsored opportunities.

What do we expect in the near term? Well we are expecting to continue a 60 to 70 percent allocation in non-agencies. We expect to keep our CMBS exposure a little bit lower, closer to 10 percent where it's been most recently. And we're expecting to keep in the near term 15 percent or so in the combination of cash and agency pass throughs. We intend to keep duration short, we intend to keep working to keep liquidity high. We'll continue to focus on

the portions of the market where we believe we have a competitive advantage and at the same time we will continue to increase our focus on growing value in some of these emerging mortgage credit sectors, a couple of which I've already mentioned like credit risk transfer deals from the agencies, single family rental securitizations, NPL (non-performing loan) deals, and so on. In our view there remains a good probability of mostly increasing interest rates or at least at a minimum continued volatility in rates and we believe that this sector is best positioned to generate attractive returns, not only in a potential rising rate environment relative to other bond sectors, but even if rates stay where they are for a prolonged period. We believed equally strongly that the relative performance that we can help provide will remain competitive.

So as I always try to say this is my invitation to please to call me, to email me, to visit us at anytime so we can continue to talk about the market, and let me pass it back to Greg.

Greg Parsons: Thanks Tom great update. So again the fund today we're proud to say is 400 million of assets, representing about 75 percent growth just in the past quarter, up from approximately 235 million a quarter ago with an extremely robust pipeline. We continue to be excited about the opportunities that we see in the market to drive value and I want to thank those on the phone who are already investors for their support to date. Again as Tom mentioned you can go to our fund website for information on fact sheets, current performance statistics etc.

And we've also started to be much more active posting our views on the market and commentary on opportunities we're seeing. And as always we welcome feedback. We'll be making this call available for replay on our website soon and we'll open it up to questions.

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

Greg Parsons: Well great again on behalf of Semper Capital, Tom and I are appreciative of everyone's time and energy and look forward to continuing the conversation and hope everyone has a great day. Thank you for the time.

Operator: This does conclude today's conference call we ask that you please disconnect your lines.

Tom Mandel: Thank you.

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