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

October 28, 2019 04:00 p.m ET

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

Definitions

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

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

Bloomberg Barclays MBS Index: Covers agency mortgage-backed pass-through securities - both fixed-rate and hybrid ARM - issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). Pool aggregates must have at least $250 million outstanding with a weighted average maturity of at least 1 year. One cannot invest directly in an index.

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

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

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

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

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

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

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

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

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

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

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

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

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

Par: The face value of a bond.

AUM: Assets Under Management.

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

RMBS: Residential Mortgage-backed Securities

CMBS: Commercial Mortgage-backed Securities

CLO: Collateralized Loan Obligations

CRT: Credit Risk Transfer

ARM: Adjustable-Rate Mortgage

NPL: Non-Performing Loan

ABS: Asset-Backed Securities

Credit Quality: 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 9/30/2019. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three year period actually has the greatest impact because it is included in all three rating periods. As of 9/30/19 the Semper Short Duration Fund received a 5-Star Overall Morningstar Rating™ among 154 Ultrashort Bond Funds and a 5-Star Morningstar Rating™ for both the 3 and 5-year periods among 154 and 130 Ultrashort Bond Funds, respectively. As of 9/30/19 the Semper MBS Total Return Fund received a 5-Star Overall Morningstar Rating™ and a 5-Star 3-Year Morningstar Rating™ among 279 Non-Traditional Bond Funds, and a 5-Star 5- year Morningstar Rating among 213 Non-Traditional Bond Funds. ©2019 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance does not guarantee future results. Morningstar Percentile Ranking compares a fund's Morningstar risk and return scores with all the funds in the same category, where 1% - Best and 100% - Worst. Morningstar ranked the Semper Short Duration Fund (SEMIX) in the top 20%, 2% and 2% out of 198, 154 and 130 Ultrashort Bond Funds for the one, three, and five-year periods ending 9/30/2019, respectively. Morningstar ranked the Semper MBS Total Return Fund (SEMMX) in the top 47%, 8% and 5% out of 308, 279 and 213 Non-Traditional Bond Funds for the one, three, and five-year periods ending 9/30/2019, respectively. Morningstar Rankings represent a fund's total-return rank relative to all funds that have the same Morningstar Category. The highest rank is 1 and the lowest is based on the total number of funds ranked in the category. It is based on Morningstar total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees.

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.

Past performance does not guarantee future results.

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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 recommendations. Any information provided with respect to the fund is as of the day 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 performed quota. Performance that are 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 would now like to turn the call over to Greg Parsons of Semper Capital Management.

Greg Parsons: Good afternoon. Thanks for calling in today for 2019 third quarter Semper Mutual Fund conference call. Our plan is to discuss both of our mutual funds during today's call, the Semper MBS Total Return Fund as well as the Semper Short Duration Fund.

My name is Greg Parsons. I’m the CEO of Semper Capital Management. And I'm joined today on today's call by Tom Mandel, Co-founder of the firm, our Chief Investment Officer and one of our portfolio managers.

We’ll spend about 20 minutes providing an update on each Fund. The Semper MBS Total Return Fund, which is about a $2.3 billion mortgage-focused mutual fund that we launched in the middle of 2013 and the

Semper Short Duration Fund which is our nearly $400 million ultrashort fund that we launched in December of 2010. And as we always do, we break a call into three parts. First, a quick update on Semper and what we're seeing in the markets. Second, we'll provide an update on the MBS Total Return Fund including our outlook, followed by an update on the Short Duration Fund and our outlook. Last, we look forward to answering any of the questions you might have.

For those who aren't as familiar with Semper, Semper Capital is a privately owned fixed income asset management platform that focuses on opportunities within the structure credit space with a heavy focus on US-based mortgage strategies. We're headquartered in the New York City. We've opened an office in London in conjunction with the launch of our first UCITS product.

Firm-wide AUM is currently about $3.7 billion, up close to 10% in the last quarter. And these assets are spread across a range of structured credit products that include the two '40 Act Funds we're discussing today, commingled private funds, UCITS products, and institutional separately managed accounts.

We have four primary strategies: total return, short duration, absolute return, and active index based. On today's call, we'll focus on the total return strategy and the short duration strategy.

The investment focus of our total return strategy is consistently centered around the US mortgage-backed securities markets is the fund first launched six years ago. Since the launch of the fund, we seem more opportunities within the non-agency section of the market which refers to the non-US government guaranteed portion of this nearly $7 trillion MBS market.

This non-agency market continues to evolve since peaking in size at the inception of the financial crisis, now over 12 years ago. We continue to see strong value and investment characteristics for much of the $350 billion of this pre-crisis legacy paper, and also within the $250 billion new-issue market which we call next generation. Although agency MBS performed well over the past year because of the sharp drop in interest rates, we still view them as less attractive on a relative basis.

The investment focus of our short duration strategy has also centered around structured credit, but more broadly than in our total return strategy. The Short Duration Fund invests primarily in very short duration, primarily investment grade securities across both agency and non-agency MBS, CMBS, ABS and senior tranches of CLOs generally rated AAA. We maintain a duration of under half a year, and the Fund has less than half of the interest rate sensitivity and the spread risk of the Total Return Fund. Many investors have found this risk return profile very attractive, particularly in uncertain markets.

Before introducing Tom, I'll share some of our top-level thoughts on the market. At the third quarter mark, the Feds returned in easing monetary policy. They cut the target fed fund rate twice in July and September and are likely to cut for a third time this week. And while this is generally supported risk assets with equities floating with record levels in both corporate credit and the low-quality portion of the structured credit markets doing well, all that said, we're starting to see some cracks in some portions of the market's armor. Levered loans and lower rated tranches of CLOs have fallen in price. Overall volatility has picked up and we've seen some interesting liquidity problems in the repo markets. Rates are roughly where they were a quarter ago and the yield curve is little steeper, but there's no consensus on the direction of the economy. Factoring in the trade war only exacerbates this uncertainty.

For us, importantly, the domestic residential real estate sector, which represents the bulk of what we invest in, continues to price in the upside with steady improvement in credit fundamentals while actively avoiding some of the volatility that has gripped some of the other sectors of the economy. In our monthly evaluation of remittance data, we continue to see good results, and we're pleased to report that our strategies continue to perform as expected which Tom will review in more detail. And, on top of this, what we call the continued sector opportunity, our size, both at the Firm level and at the Fund level is still, we believe, a distinct competitive advantage allowing us to take advantage of opportunities our competitive set can't as efficiently access.

We continue to believe even more so today's low level of rates and high equity market valuations that non-agency RMBS is a great complement to other fixed income risk assets, and the sector continues to offer the potential for extremely attractive risk adjusted returns. I'll now turn the call over to Tom to talk more specifically about the two Funds.

Tom Mandel: Thank you all for joining our call today. I'll be brief with an update on the mortgage sector and our two mutual funds and then we certainly look forward to answering questions. Let me just remind you that the call’s transcript and replay will be available on our Funds’ website in a couple of weeks.

The MBS Total Return Fund is our long-only, unlevered, total return strategy which is focused on mortgage-backed securities. And I was doing some research for a presentation to some international investors last week and saw some interesting data. The value of housing in the US is over $30 trillion; that's bigger than the combined market cap of all US equities. Half of that is mortgages, and half of that, around $7 trillion is securitized in a combination of agency and non-agency mortgage-backed securities. So, the mortgage-backed security sector is as big as the corporate bond market, and it's much more actively traded. It makes up about a quarter of the total bond market in the US. So, while a lot of investors think about MBS as being a niche strategy, it really isn't. However, it just so happens that for the time being at least, we still believe that the value in the space is contained in only about 10% of the sector and that's the $600 billion non-agency market that we’re primarily invested in. 60% of this is still made up of legacy or pre-financial crisis bonds issued in 2000 roughly through 2007. And then the other 40% consists of newly-issued securitizations which, as Greg said, we call next generation or next gen bonds.

Given the growth in most of the next gen sectors last year and this year, the overall size of the non-agency market is now growing slightly which is a big change over the 15% annual net declines that we were seeing over the prior several years. In the MBS Total Return Fund today, we own a 93% allocation to non-agency mortgages and 5% allocation to CMBS.

Like last quarter, we're positioned fairly defensively. We continue to be focused on owning cash flows that have good liquidity, improving credit fundamentals, and good levels of credit support. The Fund is about $2.3 billion, and it still has significant capacity to grow, allowing us to invest in attractive profiles.

The Fund is included in Morningstar’s nontraditional bond fund category where it has consistently been one of its best performers. And then the Short Duration Fund, which we manage to have an ultra-short bond fund profile, is also invested in structured credit but more broadly than the Total Return Fund.

We do invest primarily in very short duration, primarily investment grade securities, across not only MBS, but also CMBS, ABS, and CLOs as Greg mentioned. We’re targeting duration of a half year or less, and given the flatness of the yield curve, the Fund’s yield remains attractive while taking less than half the spread duration than the Total Return Fund has. We launched this Fund back in December of 2010.

The third quarter was fairly benign once again from a credit spread standpoint. Investors seemed primarily focused on the direction of the yield curve. And in the MBS market most focus was on how to minimize negative convexity from rising prepayment speeds and in fact how to benefit from this new phenomenon.

As you know, the Fed cut rates two times in July and September and again there'll be another cut most likely on Wednesday. During the quarter, the curve flattened by 20 basis points with the 10 year falling by 30 basis points. So, for October, the curve is steepened, which seems to be at least a modestly healthy indicator of sentiment. Most spreads were more or less unchanged during the period. CRT spreads declined modestly for current coupon bonds but widened for seasoned bonds trading at high premiums because of the increased call risk as current mortgage rates incentivized a growing number of agency borrowers to refinance after this one percent drop in rates that we saw.

Mezzanine cash flows on many new issue securitizations narrowed slightly as these tranches, in fact, were positioned to benefit from higher prepayments because the senior classes to them would be expected to pay down more quickly creating more credit enhancement for the remaining bonds in the capital stack. Senior investment grade, longer duration, fixed-rate jumbo 2.0’s also widened a little because they are so highly prepayment-sensitive. Most legacy bonds widened perhaps a few basis points. But because of their structures it really had no implications for price movement.

We remain excited and committed to participating in the continued expansion and innovation of the next gen securitization market. The largest contributor to this market's expected $125 billion of growth this year is the non-QM sector, which will account for about $25 billion of new issuance. In this non-QM (non-qualified mortgage) sector collateral performance has remained very strong over the past 3 plus years, only about 1% of the underlying loans have become delinquent. Losses on the collateral overall have ranged from 0 basis points to a high of only 18 basis points, to date. Of the loans that have become 90 days delinquent or more, 40% have paid back without a loss, 35% of the loans that have reached 30 to 60 days delinquent self-cured (became current again).

The tranches that we typically buy are BBB rated and BB rated. The losses on these tranches have been 0. And that compares to a generic collateral enhancement for the BB tranches of about 3% to 7% at issuance which then has grown as these deals delever from prepayments. So, for example, a number of the 2017 deals that we own today have between 9% and 27% collateral enhancement today. And again, that's in contrast to 0% losses.

Last week we participated in Fannie Mae's inaugural multifamily credit risk transfer deal, which is a really interesting hybrid between the next gen MBS market and CMBS sector. Fannie issued this $470 million deal in which they retained a first loss piece of about 60 basis points and issued risk sharing classes of 60 basis points to about 440 basis points, attachment-detachment points.

Similar to RMBS CRT issued by Fannie and Freddie, these are uncapped LIBOR floaters. The deal was incredibly oversubscribed with the mezzanine M10 tranche priced at LIBOR plus 325 and it was about 33 times oversubscribed and it's done quite well since freeing up late last week.

JP Morgan also came to market with a new structure last week, a structure called Chase 2019-CL1. CL stands for credit linked. This is essentially another type of credit risk transfer structure, which allows JP to retain exposure to mortgage pools, which they have originated while offloading a portion of the previously retained credit risk in these portfolios. While this deal was privately placed to one investor, it's an important test to see how regulators will treat risk sharing by banks. And if it results in capital relief, this could result in a number of the other large banks coming to market with similar larger deals which will expand the universe of allowable or investable securities for us.

Now returning to two funds, let me provide a brief update on performance, and again this information is available on our Funds’ website. So, first for the MBS Total Return Fund, for the third quarter of 2019, the institutional class returned 1.1% net. The benchmark index, which is the Bloomberg Barclays MBS Index return 1.37% through 09/30/19 benefiting again from its longer duration.

Year-to-date, the institutional class has returned 4.23% versus 5.60% for the index. For the trailing three years, the institutional class has returned 5.22% versus 2.32% for the index. And the index performance year-to-date again is attributable to the rapid decline in rates we've seen. For the trailing 5 years, the institutional class returned 4.63% annualized versus 2.80% for the index, an annual return in excess of 1.8%.

Interest income contributed to about 1.4% of performance for the quarter. So, interest income once again is the key source of performance in the portfolio. Prices were roughly unchanged. It really did not benefit from the drop in rates because of their overall low duration. The trailing 12-month dividend distribution rate for the fund has been 5.19% and the 30-day SEC yield as of the end of September was 4.18%.

Standard deviation for the Fund remains quite low for the trailing 3 years, it's running at 0.8 with a sharpe ratio of about 4. And in terms of the composition and structure of the Total Return Fund as of the end of September, the portfolio, as I mentioned, had a 93% allocation to non-agency RMBS, essentially the same as a quarter ago.

Legacy or pre-crisis funds make up about 25% of that allocation. Another 20% of the portfolio is made up of newer issue securitizations supported by legacy collateral and includes some hybrid Mez paper, NPLs, RPLs re-securitizations, and second liens. And then the remaining 50% of the RMBS allocation is in next generation with newer collateral. So that includes non-QM, which is currently about 4% of the portfolio. We have a 12% allocation to jumbo 2.0’s, a20% allocation to CRT, another 15% in single family rental securitizations, and these are all relatively the same as they were at the end of last quarter.

Non-agency CMBS make up the other 5% of the portfolio with about 4% of that consisting of Freddie K multifamily housing deals. So, during the quarter we did change our allocation just a little bit. We added a couple percent to our allocation in seasoned second lien securitization. We reduced legacy NPLs by a similar amount. And this is a way to modestly add a little bit of duration through fixed rate collateral in the portfolio without material impact from rising prepayment rates.

So, again about half of the portfolio is in next gen or newer-issue securitizations, securitized with newer-originated loans, 20% in newer-issue securitized legacy or seasoned loans, and then 25% in legacy or pre-crisis. We think this combination has provided us with an appropriate amount of liquidity, excellent diversification of underlying loans, and waterfall structures. And really importantly a growing opportunity to invest in securities with an expectation for rapid delevering and increased credit enhancement in this environment.

The portfolio's effective duration at the end of September was 1.4 years, a little bit longer than at the end of June. During this period, over the same time period, the duration of the agency market in which we're not invested in, fell by about a half a year, from 3 to 2 1/2 years. Duration as rates fell continued to decline for a number of our securities. And we offset that by buying some more fixed rate paper.

Our allocation to securities with floating rate coupons declined from about 65% percent to about 55% during the quarter. The portfolio's yield to maturity calculated using yield to forwards declined from the high 3's to the mid-3 range primarily reflecting lower projected LIBOR yields.

The portfolio's current yield remains in the mid 4's, however. The average coupon of the portfolio declined slightly to about 4.1 largely because of coupon resets. The average dollar price of the Fund was unchanged at about $96. And that consists of average dollar price for our legacy bonds of about $83, similar to last quarter. And the average dollar price of our new issue bonds is in a range of about $99 to $103. And the portfolio's spread duration is 4 years, same as last quarter.

Moving over to the Short Duration Fund. As a reminder, Morningstar includes this Fund in their ultra-short bond fund universe. Today that universe has about 200 funds in it, 120 of those funds have been around for at least 5 years. And for the trailing 3 and 5-year periods, the Fund is in the top 2% of this universe.

The Fund's performance for the quarter ended September 30 for the institutional class was a positive 78 basis points versus a positive 59 basis points for its benchmark index, the Bloomberg Barclays 1-3 Year Government. The Fund's performance year-to-date through September 30th was 2.87% for the institutional class versus 3.07% for the index. The Fund's performance for the trailing 3 years through September 30th was 2.97% versus 1.54% for the index, and performance of the trailing 5-year period was 2.48% for the institutional class versus 1.34% for the index, representing an annualized excess return about 1.1%. The primary source of performance for the Short Duration Fund just like the Total Return Fund is interest income, and interest generated about 95 basis points of performance during the quarter.

Prices overall were essentially unchanged given the short cash flows and high quality of the portfolio with floating rate CRT bonds contributing just a couple basis points in price decline, and the asset-backed sector, which is generally short in fixed rates, adding a couple basis points in price appreciation.

The 12-month dividend rate as of 09/30 was 3.24% for the institutional class, which is a couple basis points higher than a quarter ago. And the SEC 30-day yield at the end of September was 3.24% also.

Next, turning to the composition of the Short Duration Fund. At the end of September, we held a 2% allocation to government paper. We had a 24% allocation to non-agency RMBS, excluding agency CRT. We had a 23% allocation to credit risk transfer deals and again these are Fannie Mae and Freddie Mac issued securities, a 9% allocation CMBS, a 21% allocation to asset-backed securities, and a 20% allocation to AAA CLO’s, and then finally a 1% allocation to cash equivalents. Within the non-agency RMBS category, we own about 1% legacy paper, which is down a few percent from last quarter. We have an 18% allocation to new issues, which consists primarily of single-family rentals, jumbo 2.0’s, non-QM’s, NPL’s, RPL’s, and second lien securitizations. Within non-agencies, we’ve reduced legacy and SFR slightly, and we've added to our exposure in 2.0 and non-QM slightly. The majority of the CMBS that we own are still in Freddie K multifamily securitizations.

In the asset-backed space, we currently have a 3% allocation of AAA autos and cars. We have a 16% allocation to investment grade, subprime, auto securities, which is up from about 10% a quarter ago. Then, we have another roughly 2% spread out across marketplace lending, tax liens, small business lending, and a couple of other esoteric structures.

Over half 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. We do not own corporates or other unsecured paper. The portfolio's effective duration is 0.5 years, which is up from 0.4 a quarter ago.

We have a 60% allocation to floaters in this portfolio, which is down from about 70% a quarter ago. So the additional short maturity fixed-rate duration paper that we have brought added this approximately one-tenth year duration. And we like this positioning, and given the Feds two cuts, the likely third cut this week, and the implication for the very front end of the curve.

The portfolio's yield to maturity, based on the forward curve today, is about 2.9%, down from about 3.2% last quarter with the SEC yield unchanged, as I mentioned, at 3.24. The portfolio's average coupon fell from about 4.3% last quarter to 3.9% currently, again reflecting the decline in rates including LIBOR. The portfolio has an average dollar price of about $101, which is unchanged from last quarter.

Today, 85% of the portfolio is investment grade, 2/3 of the non-investment grade position, the other 15%, is comprised of a number of very strong credit profiles we are invested in, such as, senior tranches of nonperforming loan securitizations, which don't get rated, but we are extremely comfortable with their credit profiles. Most of the below IG paper that is rated is in BB rated new-issue paper including CRT positions that we expect will continue to deleverage and, in many cases, will get upgraded over the next several months.

And just as with the Total Return Fund, the Short Duration Fund is long-only with no leverage or hedging. We continue to believe that we're well-positioned in the Short Duration Fund with higher quality, shorter cash flows. While the Fed will cut rates most likely again this week, it's not a given that rates will decline from here. In fact, the curve has exhibited some upward pressure now over the last couple of months with the 10-year about 40 basis points higher than its early September lows, and the 2-year about 25 basis points higher. Depending on the Chairman’s press conference tomorrow, we believe that investors may potentially be disappointed which could lead to a little more upward pressure on rates. All of the real estate and most of the consumer credit fundamentals that we look at continue to show improvement, and our view remains that the consumer is in good shape.

While, corporate credit is likely to come under increased pressure consistent with the weakness that Greg mentioned that we've seen in levered loans and in lower quality CLO tranches.

For both the Total Return Fund and for the Short Duration Fund, our primary goals are to generate attractive current yield while minimizing downside volatility, maintaining liquidity, and also remaining in position to take advantage of opportunistic trades and near term volatility should it reappear.

And as Greg said, we're confident that our small size and our ability to be nimble is increasingly valuable. While we're slowly and steadily growing, that nimbleness remains 100% intact. Thanks for your time and I'll pass it back to you, Greg.

Greg Parsons: Thanks, Tom. Great review. Beyond our continuing success with the MBS Total Return Fund and the Short Duration Fund, we have a lot that we're proud of. We continue to ramp up our efforts supporting many activities related to our nation's veterans and we’ll continue to expand on that this year.

We rolled out a formalization of our program called True North, to more efficiently marshal our resources, which in turn supports various platforms and our employees’ volunteer efforts at the local level. We as an organization believe we can do both well and do good.

We remain very excited about our two Fund’s performance, their growth and robust pipelines. We've never been more excited about driving value to our partners from both legacy and new-issued RMBS, as well as other structured credit sectors. I’d like to thank those in the phone who have already investors for your support to date and, as always, we welcome your feedback as how to make this call as productive as possible.

Let’s now open up the call to questions.

Operator: At this time, I would like to remind everyone that if you would like to ask a question to press star one on your telephone keypad. Now, again, ladies and gentlemen, that’s star one for any questions. And again, that's star one for any questions over the phone line. Okay. We do have a question from Joe Escalada.

Joe Escalada: Hi! I was wondering if you saw deteriorating credit that would cause you to be more defensive going forward, what might that look like, what indicators would trigger that conclusion from you, and then how might you reposition or make changes to the portfolios to address that darkening outlook?

Thank you.

Tom Mandel: Thanks for the question. So, we do look at a number of metrics as a part of our analysis, a monthly remittance data that we get for the underlying loan supporting the deals we invest in. So, we're looking for a whole number of different things. Certainly, one of the really important criteria is loan to value. So, we're looking at home price appreciation nationally and how that compares to the amount of outstanding debt.

And we're pleased to see that the average loan-to-value of loan to value of loans supporting our bonds today is in the range of 60 to 65. And so that of course is significantly different than it was pre-financial crisis. We also look at trends in delinquencies and defaults. And then just a number of any sort of traditional economic metrics like employment change, and so on.

And what I would say at this point is that we are not seeing any deterioration. In fact, we are seeing in general, across all of our sectors, continued modest improvements in these metrics. If we do see deterioration, we really have a couple of approaches. The first approach is we have the ability to go more senior, and therefore have more credit enhancement, more structural support, within many sectors we invest in.

But ultimately, we have the ability and expectation to invest in agency mortgage-backed securities. Here at Semper, we do invest in agencies across a number of our strategies, while we don't own them in the Total Return Fund today. If we saw a deterioration in the economy, we would want the quality and liquidity and duration that agency mortgages would give us.

Joe Escalada: Thank you.

Operator: Once again, if you would like to ask a question, please press star one. Again, that's star one for any questions over the phone line. Again, ladies and gentlemen, star one for any questions. And we do have a response from Burch Helm.

Burch Helm: Yes, I have a question. Do you see anything that does not lower, either this time or in December, do you see anything else out there falling apart of China or anything else that would start to take this market down, but particularly obviously, interest rates headed back up.

Tom Mandel: Of course, one of the things that we love about this space is that we're betting on homeowners continuing to make their mortgage payments. So, I think that provides us with just a little bit of protection relative to some of these geopolitical events that might occur. So, while there is certainly some positive correlation to these risk events, it's not all that high.

I think that for us, the nearest term impact if something like that were to happen, if there's a major event in terms of trade or something else that is geopolitical, that resulted in a pretty dramatic risk-off trade such that equities traded down significantly and high yield credits traded down significantly, there certainly would be some positive correlation and that would have some mark to market impact on our bonds. We certainly saw that in a very small way in the fourth quarter of last year. We saw that in late ‘15, early ’16, where when those markets went down by a lot, prices of these bonds went down by a little

Burch Helm: But nothing like ’08, ‘09.

Tom Mandel: No. And that's just because our market is in a very different place in terms of the overall creditworthiness. The loan-to-values, the credit quality of the borrowers, it's just very different than it was then. So, it's certainly something that we pay attention to, but it's not something we have in a term concern about, and I would also say that if rates do go up, that in many case is a positive for us because a lot of the paper in our space is floating rate.

So, the coupons go up and rising rates are often connected with strong economic output, which again, should be good for home prices and for employment.

Burch Helm: All right. Thank you very much.

Tom Mandel: You’re welcome.

Operator: And again, ladies and gentlemen, that’s star one for any questions over the phone line. Again, that's star one for any questions.

Okay. And at this time, I'm showing no responses.

Greg Parsons: Great. Well again on behalf of me, Tom, and the entire Firm, we appreciate folks dialing in for today‘s call. We can be reached again for follow-up questions or for information about the products. Hope everyone has a great afternoon. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference call, you may now disconnect.