Semper MBS Total Return Fund Quarterly Conference Call

April 5, 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.

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.

Bloomberg Barclays Aggregate Index: A broad base index, maintained by Bloomberg L.P. since August 24th 2016, and prior to then by Barclays which took over the index business of the now defunct Lehman Brothers, often used to represent investment grade bonds being traded in United States.

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.

Empirical Duration: Calculation of a bond's duration based on historical data (change in price for a given change in yield to maturity).

Morningstar Proprietary Ratings reflect risk-adjusted performance as of 3/31/2017. 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. As of 3/31/17 the Semper MBS Total Return Fund received a 5-Star Overall Morningstar Rating™ and 5-Star 3-Year Morningstar Rating™ among 248 non-traditional bond funds. The rating is specific to SEMMX and SEMPX and does not apply to other share classes of the Fund. 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.

Morningstar Rankings represent a fund's total-return percentile rank relative to all funds that have the same Morningstar Category. The highest rank is 1 and the lowest is 100. 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. SEMMX was ranked in the top 51 % and 3% out of 363 and 248 funds for the one and three year periods ending 3/31/17 respectively. **Past performance does not guarantee future results.**

Unsubsidized SEC Yield: 4.94%

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 for the Semper MBS Total Return Fund Quarterly Call. The views expressed on this call are the current views of the participants and are not intended as a forecast or as investment 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 the principle value of an investment will fluctuate so that an investor's share, 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 may be obtained by calling 855-736-7799.

After the speaker's remarks, there will be a question and answer session. To ask a question, please press star followed by the number one on your telephone keypad.

To withdraw your question at any time, please press the pound key. I would now turn the call over to Mr. Greg Parsons of Semper Capital Management. Please go ahead, sir.

Greg Parsons: Well, I want to start off saying thank you for calling in to our quarterly call. My name is Greg Parsons. I'm the CEO of Semper Capital Management and I'm joined as always on today's call by Tom Mandel, co-founder of the firm and a senior portfolio manager within the investment team. As we've done historically, Tom and I plan to spend 15 to 20 minutes providing an update on the Semper MBS total return mutual fund, a mortgage-focused mutual fund that we launched in mid-2013. Within the call, we'll break it into three parts:

First, a quick update on Semper and what we're seeing in the overall markets. Second, Tom will provide an update on the fund and some specifics around the portfolio and our outlook. And last, we'll open it up to questions.

So I'll just touch on Semper. We are 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). We manage approximately 1.4 billion of assets at the firm across a range of structured credit strategies that include absolute return, total return, and index-based solutions. And our skill set is available across multiple product formats to include institutional separate accounts, private funds, and public funds.

Founded in 1992, we've been providing our investment expertise to a diverse range of clients for coming on 25 years now, and our deeply-experienced investment team is supported by a strong, institutional platform that leverages human capital with an emphasis on operations, compliance, and risk management.

And I'm happy to say that across all areas of the firm, our platform is the strongest it has ever been and we believe our distinctive positioning within the space will allow us to continue to capitalize on opportunities for both our clients and partners. Let me turn and share some of our high levels thoughts related to the opportunity we continue to see in market. First, even at today's levels what with most non-agency MBS 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 portions of the structured credit universe.

As we have previously articulated, the combination of improving credit fundamentals, the structure of the market, and a strong technical backdrop all 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 actually accelerated into the first part of 2017, beating virtually all consensus expectations. However, the most important metric supporting our market, home affordability, remains extremely attractive on a historical basis. And we'll touch on that and we'll go deeper on that later in the call.

Second, as the universe of these assets continues to season, and the overall credit quality of the residential real estate space continues to improve, we see growing opportunities for a nimble opportunistic strategy to invest in attractively valued securities and mortgage assets. Of note, the legacy non-agency RMBS market is now roughly 500 billion in size and which we think may begin presenting increasing challenges for some of the larger players in our space. Semper's size remains a distinct advantage allowing it to aggressively navigate opportunistically within this market place. Third, our sectors remain extremely well positioned within the fixed income landscape with respect to interest rates and price volatility.

The fund's performance and positioning, not only during the recent rise in rates post-election and around the time of the last Fed rate rise with the 10-year treasury rising from its brief low of 1.35 to 2.6, and now down to 2.35 for the past several trading sessions, have validated this perspective and belief. Our performance has remained positive throughout this rapid rise in rates and remained positive during the recent drop in rates.

To summarize our views from a high level, we believe the mortgage credit sector continues to offer an extremely advantaged yield profile, low duration, and downside protection from a credit perspective as a function of continuing improvement in the real estate credit fundamentals. All of these factors continue to make the RMBS a great diversifier and offer the potential for a higher risk-adjusted return within a diversified portfolio. I'll now turn the call over to Tom to talk more specifically about the fund.

Tom Mandel: Thank you all for taking the time to join our call. So we are approaching the end of our fourth fiscal year since the fund's launch. The Semper MBS total return fund's first quarter looked a lot like the last several months of 2016 and we've now had 13 consecutive positive months of performance despite the significant rise in treasury yields that we've seen during this timeframe. The fund continues to have a five-star rating from Morningstar since we crossed the three-year mark last year within the non-traditional bond fund universe, and that universe in now made up of 298 funds.

We saw very good growth again this quarter. Assets increased by about 200 million dollars or about 35 percent, ending the quarter at 775 million. And we continue to estimate that the fund has about two billion of incremental capacity from here. The fund's strategy remains the same: to invest primarily in mortgage securities and our primary sector concentration, once again, is legacy non-agency RMBS. And of course, just by having MBS in the name, we've committed to always having at least 80 percent of the fund invested in mortgage securities.

The first quarter was a good one for risk assets and essentially for all markets and was ultimately benign with one Fed rate increase that did not, after all, surprise the market.

The 10-year treasury started and ended the quarter in the mid 2.40's and as Greg alluded to, hit a high a little bit above 2.60 in mid-March. The Bloomberg Barclays Aggregate Index returned 82 basis points in the quarter and the Bloomberg Barclays MBS Index, which is the fund's benchmark index, returned 47 basis points. To talk about our performance a little bit, during the first quarter of 2017, the fund's institutional share class returned 1.60 percent net versus the 47 basis points for the MBS Index, an excess return of a little over one percent.

Performance annualized from inception back on July 22nd of '13 through March 31st for the institutional share class was 7.38 percent again annualized versus the MBS Index return annualized of 2.76, which represents an excess return of just over 4.6 percent per year. The fund's total rate of return has been positive again for the last 13 months and for now for 42 of our 44 months, or about 95 percent of the time, in contrast to the Index which has been positive less than three-quarters of these months.

The primary source of positive performance during the quarter, once again, was interest income with a positive contribution of approximately 1.3 percent. Prices rose about 40 basis points on average in the fund during this quarter. Price gains that we saw were spread pretty evenly across the different sectors that we're invested in. And then realized gains contributed about 10 basis points. The largest sector contributing to realized gains were sales in the small balance commercial sector that we've talked about a few times in recent quarters. And the dividend yield for the quarter on an annualized basis was 5 1/4.

Greg Parsons: Yes, Tom let me interject quickly with a quick comment about performance volatility. In our view one of the most valuable characteristics of the sector we are investing in combination with our strategy frankly is the lack of volatility in the fund's share price as well as the underlying bond prices. The fund started the year with an NAV of 10.58 and it has slowly risen to 10.61 as of today with only a couple temporary one basis point dips along the way. Performance for the three months for the institutional class were 61, 51, and 47 basis points on a monthly basis. So you know, as we continue to illustrate the sector continues to support not a lot of dispersion or price volatility as a function of the assets.

Tom Mandel: OK. So let me next turn to the composition and structure of the fund. In terms of the current sector weightings, as of mid-March, the non-agency RMBS portion of the portfolio was 60 percent, and that's up from about 52 percent at year end. The allocation across RMBS sectors continues to be roughly the same, of that 60 percent, about 15 percent of that being in the prime sub sector, about 20 percent Alt-A, about 25 percent in subprime, 30 percent in NPLs, and we talked about those quite a bit the last couple quarters, and then finally about a 10 percent allocation to option ARMs.

Non-agency CMBS is a little bit lower than it was a quarter ago, at about 15 percent versus 20 percent a quarter ago, and about a third of that 15 percent is in the small balance commercial space. That sector is a little bit lower, and we have realized some gains in that space. The asset-backed component continues to be about 15 percent, with about a one-third allocation to single family rental securitizations. And then finally, we have about a 5 percent allocation to cash equivalents, and another 5 percent to agency MBS pass-throughs. Our cash target currently is about 5 percent, and our target to cash plus agencies, you know, meaning the most liquid part of the portfolio, together remains at 10 percent.

The non-agency market's tone and sentiment were solid throughout the quarter both in terms of market participants, narrower bid-ask spreads, as liquidity continues to be better than a year ago. There continued to be eager buyers led by real money investors, insurance companies, money managers, et cetera. With yield still scarce in other sectors and with a growing expectation for rising rates, holders seem to be happy to hold this paper and it's aggressively bid when it's offered for sale.

We continue to see, however, a healthy number of bid lists and solid trading activity. With the credit spread compression that we have seen along with the flattening credit curve in this space, we have felt that it is prudent to take less risk in anticipation of what we believe to be some inevitable weakness and some subsequent opportunities that we think we are going to see. We don't know what will be the trigger but we do think that it is likely. So we've continued to focus on higher quality cash flows with more liquidity, less rate sensitivity, and hopefully lower risk correlation to other risk assets.

Consistent with that, we've continued to take the opportunity to sell some of our less liquid profiles, and we've been focusing on adding the most liquid securities with the least downside price risk. We have continued to add NPL securitizations, the top tranches - the most senior tranches - of those securitizations which today make up about a third of our

RMBS allocation. The bonds are yielding today around 3 ½ to 3 ¾%. They are trading with very little effective spread duration and they are very liquid. We are confident that we'll have the opportunity to rotate some of this cash back into higher yielding profiles in the near to intermediate term.

In terms of duration, we are continuing to keep effective duration between about one and a half and one and three-quarters years. However, the empirical duration of our portfolio continues to remain even lower than that. We have not seen material interest rate driven price movements in most of our portfolio, and we expect that to persist for some time.

From February 24 through March 13 we saw the 10-year rise by 32 basis points in yield, and its price fell at that same time by about 2 and three-quarters points. During that time period our fund's share price actually rose by 1 basis point. So in our view, this low interest rate sensitivity adds to the attractive diversification that this sector provides within the bond portfolio. With rates still low and durations so much longer in many sectors, any rise in rates will have an increasingly negative impact on most of the bond market. And so we firmly believe that mortgage credit can provide one source of stability while generating current yield.

The average dollar price of the fund was about 92, up a little bit less than one point from last quarter. The average price of the RMBS portion of the portfolio, is currently 90 with prime paper in the high 80's, Alt-A in the low 80's, subprime in the mid 80's and the NPLs that we own all trading right around par. The average price for the CMBS book is around 95, and that's up from about 93 last quarter.

Looking at some of the fund's other key characteristics, of course we continue to have significant diversification across vintages. Over 50 percent of the portfolio was 2005 or earlier, and about 20 percent of the portfolio is in relatively recently issued paper, paper issued in the last couple years. So much of the underlying collateral are also our legacy loans.

Terms of seniority: over 60 percent of the portfolio is currently invested in senior securities and of course that provides incremental credit support from structural subordination of the bonds below us, which are in first loss positions. 45 percent of the RMBS sector is currently in floating rate securities. We believe that many borrowers are better able to withstand rising mortgage rates given improving credit quality.

And of course, a rise in short term rates is expected to incentivize these borrowers to refinance. So this provides our bonds with some price protection, from rising rates and as borrowers are incented to refinance during this rising rate environment, that gives us the opportunity to generate, to have some of the cash flows that we expected come into the funds sooner, which is good for performance.

Another 30 percent of the RMBS portfolio has average lives under a year. 65 percent of our CMBS are floaters. And overall the coupons on our floaters have risen by about a ½ to ¾ percent over the last year. So that's having some positive impact on yield.

Turnover continues to be an important part of our strategy. We continue to opportunistically trade bonds during the quarter. We generated about $1 million of realized gains similar in size actually to the last quarter. We increasingly believe that our size, our small size, small compared to many other fund managers, remains a significant advantage in this market.

And we think that advantage is going to grow, as Greg mentioned. Our view is that we are right-sized. We invested about $250 million in the fund during the quarter. And we invested that in paper across the sectors that I have described. Yielding anywhere from 3 ½ to about 6 percent loss-adjusted yields.

On the topic of spending cash, as Greg mentioned the RMBS universe today is about $500 billion, and we are expecting about $60 billion in paydowns this year, about $50 billion of new issuance in a combination of non-QM paper, agency CRT deals, NPLs and other newer issued paper. So we think the overall opportunity set is not only robust today but will continue to be so as the fund continues to grow.

The fund today does not have any leverage in place, does not have any hedges, and we don't plan on using either. We of course remain comfortable in doing the credit work to understand and assume that credit risk of the bonds we are investing in and with respect interest rate risk, we already have very little rate risk because of the kinds of securities we are investing in.

I mentioned we have a 10 percent target for cash and other immediately liquid securities, primarily agency pass-throughs. In addition to that liquidity we continue to maintain the borrowing facility from US Bankcorp which can only be used for redemption purposes. Again, US Bancorp is our fund custodian and administrator, and that line of credit can only be used for redemption purposes and is equal to about 20 percent of AUM. So that of course is another source of liquidity should we need it.

Our portfolio's loss-adjusted yield today is about 5.4 percent. It was about 5 ½ percent at the end of December. The yield in the RMBS portion of the portfolio is about 5 ½ percent, for the CMBS portion of the portfolio about 7 percent.

So looking forward what are we thinking? We expect the residential real estate market to remain firm and for economic activity to be okay. We think the Fed is going to raise rates another two or three times this year, taking advantage of recent gains in employment and inflation and improved market sentiment. And we do think that will lead to some further increase in interest rates.

We think that the Fed is also going to be keeping a close watch on the new administration's fiscal stimulus package. But we do believe that equities and other risk assets are increasingly susceptible to a risk-off trade. And we think that the dual risks of rising rates and risk of rising asset volatility, again, make RMBS a very solid investment alternative at this time.

We think that the legacy non-agency RMBS continue to be the place to go and that we think will continue to perform well, in either of these scenarios. If rates rise, we think that these bond prices will remain stable thanks to their low duration and credit support. If a risk-off scenario does develop, although we expect some positive correlation between RMBS and other risk assets, like we saw last January and February of 2016, we believe that these bonds will hold up much better as they did a year ago, relative to those other risk assets. And given the significant credit improvement over this past year in mortgage credit, we think the correlation this time would be even lower.

Credit quality of homeowners continues to increase through rising home prices and job creation. HPA has accelerated to around 6 percent nationally. We don't expect that to continue but we do expect prices to continue to rise. This fundamental strength has allowed subprime mortgage refinancing and voluntary prepayments to rise. And since we own this paper at a discount, this is accretive to performance.

One question that we hear, more and more, and Greg alluded to this earlier, is home affordability given that home prices are back to where they were back in 2016. If homes become unaffordable that of course would make voluntary refinances less likely and could also have some spill-over if new borrowers get into credit trouble again. Our analysis is, if home affordability remains much better than pre-recession, we currently estimate that home prices would have to go up another 40 percent, holding interest rates constant, or mortgage rates would have to rise another 300 basis points, holding HPA constant, before home affordability would drop to pre-recession levels. And that assumes no increase in income. So from a fundamental standpoint we believe that the sector's underpinnings continue to strengthen.

Liquidity continues to be a very important risk factor in the fund. Liquidity continues to improve after the weakness that we saw in liquidity early last year. Our traders have continued to see narrower markets in many of the sectors that we are active in. We think that liquidity is much more than sufficient for our investment strategy but we continue to manage this very actively.

So beyond legacy non-agency RMBS which we continue to like, we like the NPL sector, for example for its liquidity, short cash flows, and solid credit. In some of our views on other sectors and the CMBS space we remain cautious. We believe that certain portions of this sector do offer good yield in liquidity with limited risk. But overall we think there will continue to be new issue supply pressures, we think we are going to see more idiosyncratic credit risk from certain sectors that are under pressure. We still like the small balance commercial sector although as I have mentioned we have taken an opportunity to sell some of those positions at very good levels. And importantly most of the CMBS that we have been buying have been floaters. There of course has been a growing discussion about malls and retail sectors which we have been cognizant of for the last few years and believe we are managing appropriately.

In the agency sector we still believe that on the whole the $6 trillion sector offers low yield for the level of prepayment and interest rate risk that one assumes. We think that certain specified pool pay-ups are becoming more interesting. These pay-ups have declined. If rates continue to rise we think that there will be additional opportunities to in this space. Of course, we very much like the quality and liquidity of agencies and there's certainly a place for a small allocation in this sector. But in general we are treading very cautiously there.

For the next couple months we will continue to position the portfolio with low duration, with high liquidity, with limited spread duration so that we can target, hopefully, a solid monthly return as we have for the last several months while managing downside volatility and at the same time while continuing to buy and trade opportunistically as the market permits. We will continue to look for value in less sponsored, more complex securities where we can receive an attractive liquidity premium and one of the strengths of our firm's design and capabilities.

So overall we think that this combination of yield, rate insensitivity and improving credit fundamentals that are supporting this fund will position us well going forward within the universe of bond funds as well as non-traditional bond funds. And thank you and we'll pass it back to Greg.

Greg Parsons: Great. Thanks Tom. Great update. The fund just crossed $780 million today up about $200 million over the last quarter with an extremely robust forward looking client development pipeline. Of note, we often get questioned around capacity of the team, the fund and the strategy to put assets to work.

That roughly 35 to 40 percent growth in assets – we are able to continue to deliver a consistent performance in that environment and believe that on a go forward basis capacity from an inflow perspective is not a constraint on the opportunity to drive returns. A lot of clients have spent several months kind of watching, waiting as the markets and political climate have worked through some extremes through much of last year and continue on.

We remain as excited as ever about the opportunities we're seeing in the market to drive value. And I want to say a personal thank you to those on the phone who are already investors for their support to date. I'd like to mention again that we have a mutual fund website www.semperfunds.com invite you to visit it. It continues to have more and more hopefully useful content about our mutual funds, thoughts on the market, fact sheets, conference call replays, et cetera. You'll see info there and on our firm website, also with some very important initiatives that we as a team support giving back to the community.

Some of these, very important to the Semper team, is finding ways to plug it and give back both supporting a number of veterans programs and housing programs. On that note we have our next Habitat for Humanity outreach coming up in a few weeks. If there's anything we can do in terms of providing you information or providing content please do let us know. And at this point in the call we'll open it up to 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. And again ladies and gentlemen to ask a question please press star one on your telephone keypad. And there are no questions at this time.

Greg Parsons: Great. Well again on behalf of the Semper team thank you for dialing in and listening. We remain excited about what we're doing and seeing and look forward to continuing to provide a great access point to the structured credit markets for our investor base. Thank you for the time.

Operator: Thank you ladies and gentlemen. That does conclude today's conference call. You may now disconnect. END