Semper MBS Total Return Fund Quarterly Conference Call

July 14, 2016, 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.

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

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.

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.

AJs: Legacy Junior AAA CMBS at issuance

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).

Unsubsidized SEC Yield: 5.45%

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 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 recommendations. Any information provided with the 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 principal value of an investment will fluctuate so that an investor shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data, current to the most recent month end, may be obtained by calling 855-736-7799.

After the speakers' remarks, there will be a question and answer session. To ask a question, please press star and the number one on your telephone keypad. To withdraw your question at any time, please press the pound key. I will now turn the call over to Greg Parsons of Semper Capital Management. Please go ahead, sir.

Greg Parsons: Well good morning/afternoon, I appreciate everyone finding some time to participate in the call. My name is Greg Parsons, CEO of Semper, joined on the call by Tom Mandel, a co-founder of the firm and a senior portfolio manager within our investment team. As we have done for the past few years now, 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. First, an update on us and what we're seeing in the overall markets. Second, Tom will provide an update on the fund and an overview of our outlook and last we'll open it up to questions.

Again, for those that know us and for those who are being introduced, Semper is a privately owned asset management boutique that focuses our efforts on opportunities within the structured credit space, specifically residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and the asset-backed securities (ABS). We manage approximately 1.2 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 skillset is available across multiple product formats to include institutional separate accounts, private funds and public funds. Founded in 1992, we've been providing our fixed income expertise to a diverse range of clients for over 20 years and our deeply experienced investment team is supported by our robust institutional platform that leverages a strong human capital with an emphasis on operations, compliance and risk management.

Before turning it over to Tom to talk about the fund's positioning and performance during the first quarter, I'd like to give some high level comments as it pertains to the opportunity we're seeing in the market. First, we continue to see opportunities to drive value on both an absolute & relative basis within the credit-sensitive portions of the structure credit universe. The legacy non-agency market is roughly 600 billion in size. And while this might present challenges to some of the larger players in our space, Semper continues to be able to aggressively navigate opportunistically within the space. Actually, if the market continues to shrink and becomes increasingly fragmented, we believe the opportunity is actually growing for us. The size, fragmentation, and inefficiencies that exist within this addressable opportunity continue to provide a solid foundation for attractive risk adjusted returns. You know, again, frankly this recent volatility and the risk off trade both in the first quarter and on the smaller scale post Brexit illustrate, we actually believe that there's an increased value proposition both within our space and within our fund.

With prices in our sector declining modestly, and spreads widening while the overall credit fundamentals of the collateral supporting our bonds continues to improve. 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. Specifically, our size, both at the firm level and at the fund level, allows us to take advantage of opportunities our competitive set can't access. Third, our sectors remain well-positioned within the fixed income landscape with respect to interest rates and price volatility.

This sector, in our view, is unique given its high yield plus low interest rate sensitivity and low price volatility, despite the barrage of rate shifts and the risk off and on environments we’ve witnessed. I was correct when saying that rate increases were off the table for a while, although I certainly didn't foresee the magnitude of the yield decline in the last three weeks and year-to-date. But I will note that the ten year was fifteen basis points higher Monday/Tuesday, so at a minimum this volatility is here to stay. And lastly, liquidity, this continues to be a growing topic of concern across the fixed income markets and we believe it will continue to grow in importance. It's worth mentioning again, liquidity management is one of the most critical inputs in our overall risk management investment process. As an interesting aside, earlier in the week, I'm sure many of you saw the Morningstar's analyst had put out interesting piece about a large MBS mutual fund. In the piece they asked a number of questions, the answers to which all support the macro theses that mortgage credit remains an extremely attractive source of risk adjusted returns in these markets. To note, one of their specific comments is whether non-agency mortgages still provide an appropriate complement to high quality, low-yielding, longer duration agency MBS. We think this question can be extended to all low-yielding longer duration bonds and funds. We believe that the higher yield, the lower duration and the downside protection from improving real estate

fundamentals all continue to make credit sensitive RMBS a great diversifier and will continue to offer 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 participating. First, let me start with some exciting news, in two weeks, our fund will be crossing the three-year mark and we're definitely looking forward to the slightly higher profile that we hope a Morningstar rating should provide us, but importantly, we have a great deal of capacity to grow the fund without doing anything differently. Net growth of the fund was fairly flat for the past quarter. We remained at about $425 million of AUM (Assets Under Management), so the fund remains small, it remains nimble and still has in our view, about $2 billion of incremental capacity. The fund's investment strategy, as we've talked about in the past, is to invest primarily in mortgage securities and our primary sector concentration continues to be in the legacy non-agency RMBS space. There haven't been any changes to any of the fund service providers. U.S. Bancorp remains our fund administrator and custodian. And importantly, the number of ways you can invest in the fund, including on broker dealer and clearing platforms offering the fund, continues to grow. As always, you can check our website for that current list of available platforms: semperfunds.com.

As Greg said, risk management is a very important part of our investment process. We believe we're really good at assessing mortgage credit risk, that's the risk that we want to be taking. However, there are a number of additional risks that we have to evaluate and manage every day. Liquidity risk, which is an ongoing focus in the fixed income markets; macro risks, and for that, we try to keep correlations low; and finally, interest rate risk. We believe that this RMBS sector continues to lend itself effectively to mitigation and management of each of these risks.

Last quarter, I talked a little bit about how the first couple of months of the year was really a very good example of how this non-agency RMBS sector and specifically our fund would perform during a challenging and weak market environment with the risk off that we saw for the first six or seven weeks of the year. We handled the redemption activity well at that time. The portfolio was appropriately positioned from a risk management perspective. And we comfortably met redemptions and we continue to maintain appropriate levels of liquidity.

For every security that we own, we maintain what we call a liquidity score, monitoring how long we believe it will take to sell that bond at its current value or alternatively the cost of selling that bond or selling a certain percentage of the portfolio today at available prices. And there were no surprises during that period. Secondly, the price action of the securities that we own, we saw much lower price volatility for most of the fund’s positions than for many other risk assets. During the first two months of the year, the average price of the portfolio

declined by about two percent. Since then, prices have been steady with a blip in the two days or so following the Brexit vote, followed by some reasonably solid strength and price appreciation over the past week. And the portfolio continue to earn a yield of about six percent annually or 50 basis points a month. It has been an interesting year, with 10-year rates down about 70 basis points with all of the geopolitical activity that we've seen, and we continue to believe that the fund has weathered all of this well.

Turning to performance, for the second quarter of the year, the net performance in institutional share class was a positive 1.10 percent, virtually identical to the 1.11 percent of the Barclays MBS Index. Annualized performance from inception, which was July 22nd, '13 through June 30th for the institutional share class, was 7.53 percent, so a little over 7.5 percent versus the Barclays MBS Index which returned annualized 3.80 percent, giving us an excess return of just over 3.5 percent annualized. Year-to-date through June 30th, performance of the institutional class net of fees was a negative one basis point versus 3.10 percent for the index which benefited greatly from the decline in interest rates. The fund's total rate of return has been positive for the last four months following February's negative performance of 79 basis points and through yesterday, the 13th, July's net performance for the institutional class has been a positive 57 basis points. So performance has been positive 33 of the 35 months, in contrast to the index which has been positive a little less than three quarters of the time. The primary source of performance during the second quarter once again was interest income with a positive contribution of 1.4 percent. Realized gains on paydowns added another 20 basis points of positive performance. Realized losses reduced performance by five basis points, and unrealized price declines during the quarter reduced performance by negative 30 basis points. Year-to-date performance attribution is as follows: Interest income, positive 2. 9 percent. Paydown gains, positive 15 basis points. Realized gains, negative 40 basis points and unrealized gains, negative two percent.

We continue to benefit from these modestly lower prices that we have observed by having the opportunity to buy some of these attractive securities at higher yields. So summarizing the first half of the year, it's our view that the sector passed the test of both the risk off trade, sharp interest rate moves, meeting liquidity demands, and providing a degree of downside protection for investor’s principal, and very importantly providing a source of what has turned out to be largely uncorrelated performance plus stability.

Global markets, of course, have a much better tone today, starting a couple of days after that Brexit vote, in our view, largely because of the expectation for continuing and in fact expanding monetary stimulus both domestically and especially globally. We continue to have many of the same concerns that we've had over the last year, including the eventual path of the Fed’s interest rate moves, which of course is now pushed off into the future, the impact of ongoing stimulus to the economy, to the markets and to real assets and, of course, the

direction of global growth and inflation or deflation. There's no question that our interest rates and equity markets are being significantly impacted from yield levels outside the U.S. and the ongoing view that the U.S. may be the one safe haven for investing and I think that is certainly having a positive impact on our specific sector. We do expect bond market liquidity to remain at lower levels, although continuing to be sufficient for our investment strategy, and we think there'll be continued bouts of volatility across all risk markets. Once again, the primary driver of performance in the legacy non-agency space over time, however, will be the fundamental credit strength of both the real estate sector and of consumers. The analysis of that credit risk, through individual mortgage loan level analysis, is what we do. This is the risk we are willing to take and we are able to analyze well in our view. Loan-to-values and homeowner's financial strength continue to steadily improve. Year-over-year home price appreciation is running in the five to six percent range. A shrinking percentage of home equity is negative and it's now well under 10 percent. Home prices on a national basis are back roughly to where they were in 2006, nominally. Employment metrics continue to strengthen albeit not in a straight line this year, which is a key ingredient to homeowner's potential strength. So from a fundamental standpoint, this sector continues to improve and now it's doing so with a modestly higher available yield than we saw a year ago, thanks to some of the price action over the last several months.

From a technical standpoint, many non-agency MBS and CMBS prices remain lower than they were six months ago. First, because of some increased correlation other risk assets that we saw during that January, February risk off trade. Second, from the continued challenges presented by dealers stepping back from positioning bonds, largely because of their new regulatory capital restrictions. And third, from some of the selling pressure that we saw from hedge funds late last year, early this year. While many bonds, primarily the highest dollar price, most liquid and large deals have gone back up in price, many subsectors remain without significant sponsorship and prices have continued to be lower. In the long-term, technicals are still on the side of the legacy market from continued reduction in supply of about 10 percent a year, which increases scarcity and puts more money back into the hands of investors like us, combined with continued interest by a diverse range of real money investors. Many of you probably know that in June, the Countrywide Rep and Warranty settlement was finally concluded. Investors received back nearly $8 billion in cash. And we've seen a lot of that cash being redeployed into the market and that has had a positive impact.

Let me next briefly describe the current composition/structure of the fund which remains well diversified across the number of metrics, the number of securities, diversification across sectors, subsectors, vintages, geography, types of borrowers, etc. Looking at the current sector weightings, at the end of June, non-agency RMBS made up 51 percent of the portfolio, equal to where we were at the end of March. And that consists essentially of 30 percent

Prime, 30 percent Alt A and 40 percent Subprime and that's about the same breakdown that we had a quarter ago. Agency CMBS is a little lower at one percent versus four a quarter ago. Non-agency CMBS, which includes a lot of small balance commercial deals is at 24 percent versus 19 a quarter ago. The bonds that we added in that space over this past quarter were more liquid, tended to be higher quality and in fact, many of these were higher quality AJs from conduit deals which had gone down in price by 10 points or so over that prior few months, now yielding six, seven percent, and again, because of their good liquidity characteristics, it made a lot of sense for a relatively short-term tactical trade. We expect that over the next couple of months, we'll be rotating more of that back into non-agency RMBS and expect to move back towards the 60 percent level.

We've kept the effective duration of the portfolio around one and a half years, but empirical duration continues to be even lower than that, so as a result, just as we did not see interest rate related price weakness in the fourth quarter of last year, we have not seen interest rate related price appreciation in the past few months. In our view this adds to the attractive diversification that this sector can provide within the fixed income portfolio. With the rates so low and durations so long in many sectors, any rise in rates will have an increasingly negative impact on much of the bond market, and mortgage credit can provide one source of stability while generating current yield. The average dollar price of the portfolio is about 87 currently, which is about a half point lower than the average cost of the bonds in the fund. The average price of the agencies that we own in the portfolio is around 103. For CMBS it’s about 91. And the RMBS average price is about 84. Our Subprime bonds continue to have a higher average dollar prices just under 90 which is a reflection of its lower volatility, higher credit quality, seasoning and so on.

Other key characteristics, we continue to have a borrowing facility from US Bancorp equal to 20 percent of AUM for redemption purposes, which of course provides one more strong source of liquidity should we need it. We continue to have diversity across vintages: over 50 percent of the portfolio was 2005 or earlier. And now, just about 10 percent of the portfolio is from paper issued in the last couple of years in some of the newer sectors that we've talked about. Fifty percent of the RMBS are senior in the capital stack. Over 50 percent of the RMBS are floating rate. And obviously to the extent that borrowers are stronger from a credit standpoint, those bonds provide some price protection from rising rates and these borrowers are incented to refinance should they get any whiff of rising rates, and we have seen refinancing modestly increase for the last several quarters. Turnover remains roughly the same, about a 100 percent annual rate. And importantly we believe that our size, which is small compared to other fund managers remains a significant advantage in this market with the respect to the ability to buy and sell bonds. And we believe that we are right sized and we think that will continue to be a growing advantage over time. We haven't, and don't expect to utilize leverage, nor will we incur the added cost of hedging. We're very comfortable doing

the credit work to understand and assume the credit risk of the bonds we're investing in, second, we think that the rate risk of the portfolio is low, so we don't need to spend money on that.

The gross loss adjusted yield to maturity of the portfolio is currently six and a quarter percent. Again, higher than where it was at the end of last year which was five and a half percent. The yield of the RMBS in the portfolio is about six and a half percent versus 6.3 percent a quarter ago. The SEC yield for the institutional class at the end of June was 5.45 percent. And, again, our yield to maturity is based on our expectation for future underlying mortgage loan defaults which we believe is conservative.

Touching on our sector views: In the non-agency RMBS space, we now see the best opportunity to buy attractive cash flows at attractive yields that we've seen in over a year. We're certainly seeing slightly fewer bonds offered because in this environment many investors are seeing few other yield opportunities and so they are remaining better holders. But again, given our size, we continue to be extremely successful in buying bonds at prices that we like. Overall, loss adjusted yields remain elevated for many of these sectors while on average, credit quality continues to improve and cash flows continue to shorten. The bonds that we've been buying over the last couple of months have averaged in the five to seven percent yield area and continue to fit our credit quality and duration targets. Liquidity remains critical as this asset class slowly pays down as individual deals continue to get smaller, but again, we view this as a growing competitive advantage for us. And we continue to find micro sectors that offer attractive complexity premiums with relatively little sponsorship. So that's an opportunity for us to generate higher returns, potentially if we're willing and able to do work, which we are.

In the CMBS sector, we remain very cautious. Right now certain portions of this sector offer good yield and liquidity and limited risk, but overall, we believe there will be continued new issue supply pressures, more idiosyncratic credit risk from sectors under pressure and potentially from some more hedge fund selling. Now, that said, we've seen the opportunity to add value in a couple of areas. First, the small balance commercial loan area, which is a smaller sector which tends to be less well-sponsored, but very much like the residential market is currently benefiting from some strong fundamental credit trends. And potentially, some of these which have relatively low loan counts, doing our deep credit analysis allows us to add incremental value. And then second, we continue to see value in certain vintage mezzanine structures and deals, like the AJs that I briefly mentioned before. CMBS generally, after performing much worse in RMBS for a number of months, has recently reversed course with some improvement other than the longest spread duration cash flows and certain deals with growing idiosyncratic risks.

In terms of agency mortgage-backed securities, we continue to believe that on the whole this sector offers very little value. Yields are even lower than they have been and we think that for the level interest rate risk one assumes there is just not a tremendous amount of value there. In fact, you know, we're more wary than ever. Specified pool payups are much higher as a result of the rate decline and while we of course like the quality and like the liquidity, and we believe that spreads should be fairly steady given continued Fed reinvestments and foreign demand, we are wary and we'll continue to be wary in this rate environment.

In terms of the new issue sectors, we continue to focus on sectors like the government agency credit risk sharing deals, non-prime deals and few of the other new issues that we are seeing periodically. They're all very deal and collateral specific, but offer some good opportunities. Prices and yields have certainly been volatile especially in the CRT (Credit Risk Transfer) space and in the multi-family space and, in fact, have demonstrated a relatively high correlation to equities and high yield. The CRT market, although, is rapidly becoming a reference security for directional movements in the mortgage credit space, which we find interesting. And more recently higher prepayment expectations in that space have improved the overall value in our view.

As Greg has articulated, we believe we're well-positioned within this space as a small, yet, credit research-intensive shop; we can focus on some of these less well-sponsored opportunities. Over the near-term, we expect to continue buying and trading opportunistically to take advantage of volatility and uncertainty that we see. We believe we'll be able to maintain the portfolios current relative yield and lower relative rate sensitivity despite changes in the market. We'll continue to look for value in less sponsored and more complex securities where we can receive an attractive liquidity premium. And given how the mortgage credit space has performed for the last year, we do expect the primary source of performance will continue to be from portfolio yield. And we expect volatility of prices in this sector to be relatively low. So, we think that this combination of yield, rate insensitivity, improving credit fundamentals will continue to position the fund well going forward within the universe of bond funds as well as within the universe of non-traditional bond funds. As always, let me reiterate my invitation to have you contact me or us in any way. And let me now pass it back to Greg.

Greg Parson: Thanks, Tom. As Tom mentioned, the fund is approximate 425 million as of today. As we look across the board, an extremely robust pipeline from continued support from existing investors and prospects. We remain as excited as ever about the opportunities that we're seeing in market to drive value. And on behalf of myself and the team, I say thank you to those on the phone that are already investors with their support to date. I'll mention again that our mutual fund website, www.semperfunds.com, continues to add useful content about both our mutual fund and the market, including current fact sheets, historical performance,

statistics, conference call replays, etc. Please check out the website and give us feedback. We'll be making this call available for replay on our website soon. And at this point, we'll open it up for questions.

Operator: Thank you, as a reminder, if you would like to as an audio question, please press star then the number one on your telephone keypad. If you're on speaker phone, please pick up the handset before you register star one. One moment for your first question. Once again, if you would like to ask a question, please press star one. And there are no questions at this time.

Greg Parsons: Great. Well, again, on behalf of me and Tom and the Semper team, we're excited for those that have been on the journey in our three year mark in a few weeks. Thanks for the continued support. And we look forward to interact with all of you in the future. Thank you.

Operator: Thank you. That does conclude today's Semper MBS Total Return Fund Quarterly Call, you may now disconnect.

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