Semper MBS Total Return Fund Quarterly Conference Call

January 11, 2017, 11:30 a.m., E.T.

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

Definitions:

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

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

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

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

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.

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

Loan-to-value: Amount of the mortgage lien divided by the appraised value of the property, expressed as a percentage.

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).

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each 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. As of 9/30/16 the Semper MBS Total Return Fund received a 5-Star Overall Morningstar Rating™ and 5-Star 3-Year Morningstar Rating™ among 235 non-traditional bond funds. 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. ©2016 Morningstar, Inc. All Rights Reserved. The information contained herein (1) is proprietary to Morningstar (2) may not be copied or distributed and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any sue of this information.

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 72 % and 1% out of 353 and 236 funds for the one and three year periods ending 12/31/2016, 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: This is Conference #6047244.

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.

Views expressed on this call are the current views of the participants and are not intended as a forecast or as investment recommendations. Any information provided with respect to the fund is as of the 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 principal value of an investment will fluctuate so that investor shares when redeemed may be worth more on less than their original cost. Current performance of the fund may be in 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 speaker's 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.

Greg Parsons: Thank you so much. Well, I want to start off saying thank you to everyone on the phone for calling in for our quarterly call. My name is Greg Parsons and I'm the CEO of Semper Capital Management, and I'm joined 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 or 20 minutes providing an update on the Semper MBS Total Return Mutual Fund, a mortgage centric -- a mortgage focused mutual fund that we launched in mid-2013. And 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 an overview of our outlook. And third and finally, we'll open up to questions.

At the firm level, you know, Semper Capital is a privately owned asset management platform that focuses our efforts on opportunities within the structured credit space, specifically residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS). We manage approximately $1.2 billion of assets 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 through diverse range of clients for well over 20 years, and our deeply experienced investment team is supported by a robust institutional platform that leverages strong human capital with an emphasis on operations, compliance, and risk management. I'm happy to say that across all areas of the firm as we enter 2017, the platform is as strong as it has ever been and we believe our distinctive positioning within the space will allow us to continue to capitalize on opportunities for our clients and partners.

Before turning it over to Tom to talk about the Fund's positioning and performance during the fourth quarter, I'd like to make some high-level comments as it pertains to the ongoing opportunity we are seeing in market:

First, 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 previously articulated, the combination of improving credit fundamentals, the structure of the market, and a great strong backdrop of technical factors are all working together to create what we believe to be one of, if not the, best source of risk-adjusted returns in the fixed income markets, hard stop.

Second, as the universe of these assets continues to season, and the overall credit quality of 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. While the legacy non-agency RMBS market is now roughly $520 billion in size, and this might present a challenge for some of the larger players in our space, Semper continues to be able to aggressively navigate opportunistically within the structured credit universe. Specifically, our size, both at the firm level and at the fund level, allows us to take advantage of opportunities our competitive set just can't access.

Third, our sectors remain extremely well-positioned within the fixed-income landscape with respect to interest rates and price volatility. The fund's performance and positioning during the continued rise in rates post-election with the 10-year treasury having now risen from its brief low of about 1.35 to over 2.40 has validated, and continues to validate, this perspective and belief. Our performance has remained positive throughout this rapid rise in rates.

To summarize our views from a very high level: We believe that the mortgage credit sector continues to offer a higher yield profile, a lower duration profile, and downside protection to pricing from improving real estate credit fundamentals. All of these continue to make RMBS a great diversifier and offer the potential for a higher risk-adjusted return within the portfolio.

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

Tom Mandel: Thank you all for taking time to join our call. We've now completed our third full calendar year since launch, and we are in the Fund's 42nd month. The MBS Total Return Fund ended the year well with 10 consecutive positive months of performance, despite the significant rise in treasury yields that Greg alluded to since we reached that low right after the Brexit vote.

The Fund continues to have a five-star rating from Morningstar since crossing the three-year mark, among the 235 nontraditional bond funds that are in the universe. And in fact, for the three years ending December 31st, the institutional share class was again ranked in the top 1 percent of the universe.

The net growth continued during this most recent quarter. Assets increased by about 15 percent to just over $575 million, and we continue to estimate that the Fund has over $2 billion of incremental capacity. The Fund's investment strategy is to invest primarily in mortgage securities, and our number one sector concentration continues to be legacy, non-agency RMBS.

The fourth quarter was solid for essentially all markets except for high-quality debt. The 10-year U.S. Treasury started the quarter at about 1.60 yield, hit 2.60 mid-December, and then settled in in the 2.40s at year-end. Fixed income securities that trade on a spread to treasuries fell in price pretty significantly during the period, erasing much of the gains from the first half of the year when rates, as you recall, fell quite significantly.

For example, during the first six months of the year, the Bloomberg Barclays Aggregate Index, which I'll always think of as the Lehman Agg, and that's a lot easier to say, it returned over 5 percent. During the second half of the year, it gave back half of that. And in the last quarter alone, the index returned negative 2.98 percent. The MBS index, which is the Fund's benchmark, returned negative 1.98 during this three-month period. It didn't decline as much, of course, because it has less interest rates sensitivity than the Aggregate Index does.

Our Fund has even less interest rate sensitivity, which we continue to believe is one of the Fund's strongest characteristics and that helped to support performance during the period. And turning to performance, for the fourth quarter of 2016, the institutional share class returned a positive 1.30 percent net versus the negative 1.98 for the Barclays MBS Index, an excess return of over 3 percent year-to-date through 12/31.

So, for the full calendar year, the institutional class performance was 3.38 versus 1.67 for the index. And annualized from inception back in July 22nd of '13 through the end of December, the institutional share class returned 7.43 versus the MBS index return of 2.82, which was an excess return of just over 4.6 percent per year on average. The Fund's total rate of return has been positive for the last 10 months and it's been positive now for 39 of its 41 months or 95 percent of the time in contrast to the index, which has been positive less than 75 percent of the time.

The primary source of positive performance during the fourth quarter, just as it was the last couple quarters, was interest income with positive contribution of about 1.5 percent. Prices in the portfolio declined by about one quarter of 1 percent on average during this 90-day period when the 10-year Treasury declined by over 7 percent and realized gains contributed about one quarter of 1 percent. And then, by subtracting fund expenses that gets us to 1.30 for the institutional share class performance for the quarter.

Year-to-date performance attribution, interest income provided about five and three-quarters percent, realized gains negative one-quarter percent and unrealized gains negative 1 percent with about a 2 percent decline back in January and February. The dividend for the full calendar year for the institutional share class was 6.18 percent.

Looking back at the full year, it's our view that the sector, this legacy RMBS sector, passed the tests of both risk-off trades, sharp interest rate moves; it met liquidity demands, it provided a degree of downside protection for investor's principal. And very importantly, it provided a source of largely uncorrelated performance and stability.

Let me next give an update on the current composition and structure of the fund which remains very well diversified with over 400 securities, a large number of sectors, subsectors, diversification across ventures, across geography, types of borrowers and more.

At the end of December, non-agency RMBS made up 52 percent of the portfolio, just slightly higher than the prior quarter-end. Within non-agency RMBS, however, there was a bit of a shift. We had about 23 percent of the RMBS in prime paper, about 22 percent and Alt-A, 20 percent in subprime and NPLs, which we talked about in our last call at the end of December, made up 34 percent of the RMBS allocation. And the prime, Alt-A, and subprime allocations all declined pretty much the same amount as the NPLs increased from about 10 percent to 34 percent.

Non-agency CMBS continue to make up about 20 percent of the portfolio and as I mentioned last time, about one-half of that allocation is in small balance commercial deals. In the asset-backed space, we have about a 15 percent allocation across a number of esoteric ABS categories and about one-half of that weighting is in single-family rental securitizations, which we've also talked about in the past. And we ended the year with a 10 percent allocation to cash, plus agency MBS and that remains our target.

The non-agency market's tone and sentiment remained very solid during the quarter and it started out January in exactly the same way. Buyers continued to be real money investors including insurance companies and money managers and in fact, with respect to insurance companies, the NAIC just increased the amount of RMBS that are NAIC-1 rated, meaning that these companies should increasingly be looking at this paper.

During our last call, I described that because of risk spread compression and lower relative yields, combined with general strength and risk assets globally, you know, we've been thinking that there will be a greater chance of being able to buy cheaper cashflows opportunistically over the coming months than we can do at this moment today.

So, we continue to take this 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, and a part of that has been adding to the NPL securitizations which now, as I mentioned are about a third of our RMBS allocation. These bonds today are yielding just about 4 percent. They trade with virtually no effective or spread duration and they're very liquid. So we're confident that we'll have the opportunity to rotate back into some higher yielding profiles and certainly over this last few months, we have bought a lot of terrific bonds opportunistically.

In terms of duration, we continue to keep effective duration low at about one and a half years and the empirical duration remains 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. If you look at the two-month period from October through November, when the 10-year treasury fell in price by 7 percent, our bonds declined by about one-quarter of a percent.

In our view, this low interest rate sensitivity adds to the attractive diversification that our sector can provide within a fixed income portfolio. And with rates still very low and duration still very long in most sectors, any rising rates we believe will have an increasingly negative impact on most of the bond market and we remain confident that mortgage credit can provide one source of stability while continuing to generate current yield.

The average dollar price of the portfolio was a little bit higher at about 91, up from just under 90 a quarter ago. The average price of the RMBS portion of the portfolio is also 91 with prime averaging about 89, Alt-A bonds averaging a dollar price of 80, subprime 89 and the NPLs trading at about 100. The average price in the CMBS portion of the portfolio is about 93.

Other key characteristics: Well, first we continue to have a borrowing facility from U.S. Bancorp., they are our Fund custodian administrator, and that's equal to 20 percent of the Fund's AUM. It can only be used for redemption purposes and obviously provides one more strong source of liquidity in addition to our cash and our near cash investments. We continue to be well diversified across vintages, over 50 percent of the portfolio is from 2005 or earlier and about 20 percent of the portfolio is now in relatively recently issued paper, much of that being NPL paper. 50 percent of the RMBS are senior within the capital stack which, of course, benefit from various types of credit support. 40 percent of the RMBS in the portfolio are floating rate and with many borrowers that are able today to withstand rising mortgage rates and with rising mortgage rates incentivizing to refinance, this is providing our bonds with some incremental price protection from rising rates. Another 30 percent of these bonds have average life of under a year, while 60 percent of the CMBS that we own are floating rate.

Turnover in the portfolio ran at about a 75 percent run rate for this past quarter. We sold about 40 cusips generating realized gains of about $1 million, and again, finding a number of attractive securities to purchase. Trading activity remains a very important part of our investment strategy. We increasingly believe that our size, of course, small compared to many other fund managers, is a significant advantage in this market and I think it's going to be growing in significance. We believe that we're right sized for this market.

On that note, as Greg mentioned, the RMBS sector remains well over 500 billion and we're seeing forecasts of about 60 billion in paydowns for 2017 and about 50 billion of new issuance in non-QM paper, NPL securitizations, agency credit risk transfer deals, et cetera. So, the overall opportunity set for us will remain robust.

The Fund still today does not have any leverage, does not have any hedges in place and we, at this point, still do not plan on using either. First, we're very comfortable doing the credit work to understand and assume the credit risk for the portfolio -- of the bonds in the portfolio we're invested in. And second, the rate risk of the portfolio continues to be very low as I've discussed earlier.

The loss adjusted yield-to-maturity of the portfolio at the end of December was about 5 and a half percent. And again, the loss adjusted nature of that yield is a conservative number in our view and that also includes cash. Yield for the RMBS portion -- the portfolio at the end of the year was approximately 6 percent and for CMBS approximately 7 percent. The SEC yield for the institutional class was 5 percent as of the end of the year, just slightly higher from a quarter earlier. And as I mentioned earlier, the institutional share class dividend for this 12-month period was 6.18.

Next, looking forward what are we thinking: We believe the greatest likelihood is for interest rates to continue to move higher modestly in 2017. Certainly, once we get through this current period of consolidation that we're in, we believe that the Fed is most likely to raise rates two or three times this year, taking advantage of both the recent gains in employment and inflation and improved market sentiment to take this opportunity to move closer to what they view as normal levels of monetary policy. And we believe they will also be keeping very close watch on the new administration's fiscal stimulus.

Clearly, the equity markets believe that fiscal policy is going to be driving GDP growth higher but we also 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 on the one hand and a rise in risk asset volatility in the other hand make RMBS a good investment alternative going forward. Legacy non-agency RMBS, in our view, remain the best place to perform well in either of these scenarios.

If rates rise, we think bond prices will remain stable thanks to the low duration. And if a risk-off scenario develops, although we certainly expect some positive correlation between

RMBS and other risk assets, as a reminder, like we saw back last January and February, when equities briefly declined by about 10 percent and RMBS prices declined only by about 2 percent, we believe that these RMBS bonds will hold that much better. And given the significant credit improvement that we continued to see over the last year in mortgage credit, this correlation is likely to be even lower.

For example, in 2010, there were over 15 million homes with negative equity. Meaning that mortgages were greater in value than the value of the homes. At the end of last year, the number declined to 3 million. At the end of 2016, it's estimated that, that improved by another 33 percent down to 2 million homes with negative equity. That combined with another net 2 million jobs created last year, we think that many more nonprime borrowers are in a position to refinance their loans. Loan to values and homeowner financial strength continue to steadily improve. Home price appreciation year-over-year has been running well over 5 percent. We think it's going to rise again in 2017, although most likely up at a more modest rate.

Loan delinquencies are now at about 4.5 percent which is down nearly 10 percent from a year ago. So, from a fundamental standpoint, the sector's underpinnings continue to strengthen. From a technical standpoint, which we've talked about many times in the past, this legacy sector also continues to benefit from slowly declining supply. It's been shrinking at about 10 percent a year, it's expected to be just slightly higher than that this year. And even when combined with new issuance of related securities, it's still modestly declining. So we think -- and at the same time, there's a growing universe of new investors drawn by this ongoing search for yield. So from a technical standpoint, we see continuing strength.

One potential risk of this declining size of the market, as well as the dealers' reduced participation in the sector, of course, remains liquidity. But, we've seen liquidity continue to improve after the weakness at this point nearly a year ago. Our traders have continued to see narrower and narrower markets in many of the sectors that we're active in including both low loan balance and low loan count deals. So in our view, liquidity remains much more than sufficient for our investment strategy. But, again, it's a very important component of our ongoing risk management activities.

Touching briefly on our sector views, non-agencies overall, we remain -- I think we have remained successful in identifying attractive cashflows at attractive yields. We're still buying bonds yielding anywhere from 4 to 7 percent opportunistically which fit our credit quality and spread and effective duration targets. In our view, the credit quality continues to improve on these cashflows. We think that our base case assumptions remain conservative and we see continued opportunities there. As I mentioned, we like this newer issue NPL sector for its liquidity and short cash flows and solid credit quality, and for its very good liquidity. We see increased voluntary prepayments by subprime borrowers as being a continued source of strength and support for the sector.

Liquidity remains critical but again, we view this as a growing competitive advantage for us relative to our much larger competitors. We continue to find bonds offering attractive complexity premiums and with little sponsorship as an opportunity for those willing to do the work to generate higher returns, which we are able to do.

In the CMBS sector, we remain very cautious. We think that certain portions of the sector do offer good yield and liquidity with some limited risk. But overall, we think that there will be new-issue supply pressures, growing idiosyncratic credit risk and potentially more hedge fund selling. We still very much like the small balance commercial sector and as I mentioned most of the CMBS we've been buying have been floaters.

In the agency MBS space, we still think that's an area that's best to avoid other than for liquidity purposes. We think that that sector still generally offers low-yield for the level prepayment and interest rate risk that they were assuming. Duration continues to significantly extend in that space. Specified full payups have become less unattractive but we still think they are expensive overall.

We still feel good about new issue sectors like the NPLs I mentioned, the credit risk transfer deals, single-family rental securitizations. Certainly, some of these sectors in particular the CRTs are a little bit more volatile. At present, their spreads are on the tight side, so while we're not adding today, there's a good chance we will continue to increase our participation over time.

In the near term, we expect to continue finding great buying and trading opportunities. Again, opportunistically. We believe we're going to be able to maintain the portfolios current relative yield and interest rate sensitivity. We'll continue looking for areas with less sponsorship and in areas with more complex securities to trade and take advantage of attractive premiums that we can generate.

Given how the mortgage credit space has been performing for the last year, we again expect the primary source of performance for 2017 will be from the portfolio's yield and we do expect the volatility of our bonds to remain fairly low. And frankly, we think that this combination of yield, relatively insensitive rate sensitivity, and 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.

Last thing I want to say is that, again, I mentioned last time that the Fund is going to be transitioning to a new income accrual process that took effect on December 1st. So the bottom line is that while your dividend will be exactly the same and performance will be exactly the same, you will not be seeing a month-end drop in share price in the NAV. So this new methodology worked perfectly in December and so that will continue going forward.

And let me pass back to Greg and thank you.

Greg Parsons: Thanks, Tom. Great review. So today the Fund is close to 600 million in assets, up about 100 million in the last quarter with an extremely robust pipeline. After a number of investors spent several months watching and waiting as the markets and political climate worked through some of the extremes through much of last year, we are more than excited than ever about opportunities that we're seeing in market to drive value and again, continue to have quite a robust pipeline at the two-pronged value proposition of -- on the offensive side, an advantage yield profile, and on the defensive side, great posturing relative to rising rates, continues to play out.

I want to take another chance to thank those on the phone who are already investors for their support to date. I'd like to mention once again our mutual fund website www.semperfunds.com continues to add content about both of our mutual funds and the market including current fact sheets and historical performance, statistics, conference call replays and more. The website and our company website also have a growing amount of information about some of the very important initiatives that we, as a team, support including veterans programs and housing programs. Please check out the website, we're always open for feedback. We will be making a call available for replay on our website soon.

And at this point we'll open the call up for questions.

Operator: As a reminder, in order to ask an audio question, please star one on your telephone keypad. Again, that's star one. And we'll pause for just a moment to compile the Q&A roster.

Again to ask a question, please press star one.

And there are no audio questions at this time.

Greg Parsons: Great. Well, again, on behalf of the Semper team, I want to say thank you for the support. We look forward to continuing to serve you over the next -- over the coming months and years. Thanks again for the time.

Operator: Ladies and gentlemen, that does conclude today's conference call, you may now disconnect.

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