Semper MBS Total Return Fund Quarterly Conference Call

October 13, 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.

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.

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 261 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. 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 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. **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 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 recommendation. Any information provided with respect to the Fund is as of the dates 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 principle value of an investment will fluctuate so that the investor's shares when redeemed maybe worth more or less than their original cost. Current performance of the Fund maybe 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 then 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: Well, I want to say thank you everyone for joining our quarterly call. Time certainly flies. This is our 13th formal update on the MBS Total Return Fund. I'm Greg Parsons, CEO of Semper Capital Management and I'm joined on the call by Tom Mandel, Co-Founder of the firm and a senior portfolio manager within the investment team. And as we've done over the past few quarters, Tom and I will spend 15 to 20 minutes giving you an update on Semper MBS Total Return Fund, a mortgage-focused mutual fund that we launched in 2013. First, an 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 last, we'll open up for questions.

Again, for those that are new to Semper, we are privately owned asset management boutique that focuses our efforts on opportunities within the structured credit space. Specifically we focus on residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) opportunities. We manage approximately $1.2 billion of assets of the firm across the 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 fixed income expertise to a diverse range of clients for well over 20 years now and our deeply experienced investment team supported by robust institutional platform that leverages 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 second quarter I'd like to give some high-level comments as it pertains to the opportunity we're seeing in market. First and as it has been fairly consistent over the last 12 to 18 months, we continue to see opportunities to drive value on both in absolute relative basis within the credit sensitive portions of the structured credit universe.

The legacy non-agency residential mortgage-backed security market is now roughly $550 billion in size and while this might present challenges to some of the larger players in our space Semper continues to aggressively navigate opportunities within the space. And actually as the market continues to shrink in absolute size and becomes increasingly fragmented we believe the addressable opportunity for us is actually growing. The size, fragmentation and inefficiency that exist within this addressable opportunity continue to provide a solid foundation for attractive risk-adjusted returns.

And the risk-off trade last year and the first part of this year has actually improved the relative value proposition of our space and of our Fund. The higher loss adjusted yield we've been seeing, we began to see earlier this year were happening despite and in the face of strengthening credit fundamentals of the collateral supporting our bonds. Second as the universe of these assets continue to season and the overall credit quality of the residential real-estate space continues to improve, we see growing opportunities for a small nimble opportunistic strategy to invest in attractively valued securities and mortgage assets. Our size, you know, both at the firm level and the fund level allow us to take advantage of these opportunities that many of our competitors just can't access. Third, our sector remains well-positioned within the fixed income landscape relative to interest rates and price volatility. It was even hard to talk about this a month ago but this sector in our view is unique given its high yield, plus its low interest rate sensitivity and low price volatility. The 10-year Treasury has now risen from its brief low of 1.35 over the period of time. It was 1.50, it's now cresting at 1.70. Our performance remains positive throughout this rapid rise in rates. To summarize our views from a high-level, we believe that the mortgage credit sector continues to offer a higher yield, lower duration and downside protection from the continued improvement of real-estate credit fundamentals. All these continue to make RMBS a great diversifier and offer the potential for higher risk adjusted returns 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 time to join the call. Since our last call in mid-July the Fund has now crossed the three-year mark since inception and it has received a five star overall and a five star three-year morningstar rating among the 261 fund, non-traditional bond fund universe which we're obviously pleased with. And in fact for the three years ending September 30th the institutional share class ranked first in that universe.

We're pleased to say that net growth resumed during this most recent quarter with assets increasing by about 20 % to just under $500 million where we are today. We continue to estimate that the Fund has roughly $2 billion of incremental capacity from this point. The Fund's investment strategy is to invest primarily in mortgages and our primary sector concentration has continued to be in the legacy non-agency RMBS space.

There haven't been any changes to any of the Fund's service providers led by U.S. Bancorp, who is one of the -- if not the -- leading bank in mortgage-backed security custody, is our Fund administrator and custodian. And, of course, the number of ways that you can invest in the Fund including on BD and clearing platforms offering the Fund continues to grow and we keep a current list of these firms on the mutual fund website.

The third quarter was a good quarter for the capital markets despite the headline Brexit vote and a few days of risk off sentiment to follow that. Equities and all risk assets were higher in price and although interest rates seem to be very volatile with the 10-year U.S. Treasury touching low of about 1.35 in mid-July, rates really just moved modestly higher overall during the quarter with the 10-year closing about 15 basis points higher during the period.

Despite this relative calm provided by the continuation of monetary stimulus globally we certainly didn't let our guard down. As Greg said, you know, risk management is a critical ongoing part of our investment process. We're confident in our ability to access and analyze mortgage credit risk, that's the risk we want to be taking, but with a lot of other risks that we're constantly evaluating and managing. These include liquidity risk which we talked about in most of our calls: both the ability and cost of selling our bonds as well as providing appropriate liquidity to investors, macro risk and interest rate risk. And we believe more than ever that non-agency mortgages as a sector lends itself to effectively mitigate and manage each of these risks. We continue to review and analyze the performance of the fund during the risk off environment of this year's first quarter and we continue to be very comfortable with how our portfolio performed both in terms of the limited price declines that we had talked about and adequate liquidity. The portfolio continues to benefit primarily from loss-adjusted yield of about 6% and over this past quarter a little bit of price appreciation.

Turning to performance, for the third quarter of 2016 the performance for the institutional share class net of fees was 2.07% versus 60 basis points for the Barclays MBS Index which represents an excess return of over 1.40%. Annualized from inception back on July 22nd of 2013 through September 30th, the performance of the institutional class was 7.60% versus the Barclays MBS Index return of 3.69%, an excess return of just over 390 basis points per year on average.

Year-to-date through September 30th, the institutional class has returned 2.06% versus 3.72% for the index. The index, of course, has benefited greatly from the decline in interest rates this year as have most longer duration bond sectors. So, the Fund's total rate of return has now been positive for the last seven months and performance has been positive in 36 out of the Fund's 38 months.

In contrast to the Fund, the index has been positive less than 75% of the time. The primary source of positive performance during the third quarter once again was interest income with the positive contribution of about 1.5%.

Prices in the portfolio rose by about three quarters of a percent on average and realized gains had a small positive impact. Prime and subprime price gains had the largest impact on unrealized gains. So year-to-date's performance attribution: interest income has generated about 4.5% of portfolio return, unrealized gains 1% decline and then realized gains roughly flat. To summarize the first nine months in the year, it's our view that the sector has passed the test of both risk off trades, relatively sharp interest rate moves, meeting liquidity demands, providing a degree of downside protection for investor's principal and very importantly providing a source of largely uncorrelated performance and stability.

Next let me briefly describe the current composition of the Fund which, of course, remains well diversified in terms of securities. We have about 400 securities in the portfolio, and remains well diversified across sectors, across sub sectors, across vintages, across geography, types of borrowers and more.

So sector weightings as of September 30th: non-agency RMBS made up about 51% of the portfolio which is the same as June 30th and that allocation is divided as follows: 31% allocation to prime, 27% Alt-A, 31% subprime and about 10% to NPLs, which are non-performing loans which I'll talk about in a moment. Agency CMBS made up of about 1% of the portfolio, non-agency CMBS about 20%, half of which was in legacy deals and the other half represents small balance commercial deals. About 15 % in asset-backed securities again equal to the June 30th weighting and cash of 4% and then agency mortgage-backed securities of 10%. Currently our cash plus agencies target allocation is 10%.

The market's tone and sentiment was much stronger during the quarter. We saw a very minor buyer strike by real-money investors in the first quarter, you know, in the face of the hedge fund redemptions that we had seen and from some increased correlation to risk assets during the risk off trade that lasted for several weeks. Since that point the attractiveness of the mortgage credit sector in terms of its high yield, its low interest rate sensitivity and its improving credit has increasingly brought real money investors back into the market to the point where we believe that some investors recently have been ignoring liquidity and idiosyncratic risks. So we've been taking the opportunity to sell some of our less liquid profiles, largely in Alt-A and subprime and legacy CMBS space and we've temporarily been focusing on the most liquid securities with the least downside price risk assuming we're going to be able to buy some of these bonds back at better prices.

One of these interesting non-agency sectors that we've been investing in is the NPL or Non-Performing Loan securitizations. We're confident that we'll have the opportunity again to rotate back into some of these higher yielding profiles. So NPLs have been issued by a number of issuers for the last several years. Typically these have been $250 million to $1 billion sequentially tranched transactions backed, of course, by non-performing mortgage loans with sponsors retaining equity and in some cases some of the subordinated classes.

The senior tranches that we invest in are typically callable after one year and there's typically a significant coupon step up after the third anniversary. The securities are paid down through the disposition of loans and this can be through taking possession of properties and selling them or through modifying and selling loans. The structures are really straight forward. The senior class generally represents over 50% overcollateralization. The senior classes have been issued as tight as call it, 3 1/8th coupons and as wide as 4 1/2% over the last year.

Given the structural protection in these seniors as they've held up extremely well and the liquidity profile has been excellent as well, they generally are called after the first year and if they don't again they pay down quickly and the deals typically have a large, call it, a 300 basis point coupon step up which really incents the sponsors to monetize these loans quickly.

In our view these have been and are a very high quality and liquid segment of the mortgage credit sector which is perfect to own at this stage. Turning to the portfolio's positioning in terms of duration we continue to keep effective duration between about 1.5 and 1 3/4 years but the empirical duration remains even lower. We have not seen interest rate driven price movements in most of our portfolio and we expect that to persist for some time. For example, in the last two weeks the 10-year Treasury yield has risen by about 20 basis points, 10-year prices have declined by about 2% but the Fund's performance excluding interest income is flat. In our view, this adds to the attractive diversification the sector provides within a fixed income portfolio. With rates still so low and durations so long in most sectors, any rise in rates is going to have an increasingly negative impact on most of the bond market. And we believe more than ever that mortgage credit can provide one source of stability while generating current yield. The average dollar price of the portfolio currently is about 89, that's about a point higher than last quarter. The average price of the agencies we own is about a 104. The average price of the CMBS we own is about 91 and the average price of the RMBS portion of the portfolio is about 88. The subprime bonds within the RMBS portion continue to have an average dollar price which we believe is representative of their low interest rate sensitivity and improving credit quality, they've got an average dollar price of just under 90. Some of the other key characteristics: first we continue to have a borrowing facility from U.S. Bancorp equal to 20% of assets which can be used only for redemption purposes which is another strong source of liquidity in addition to our cash and near cash investments. We continue to have diversity across vintages, over 50% of the portfolio was 2005 or earlier and as of today about 10% of the portfolio is in relatively recently issued paper, over this past couple of years.

Fifty percent of the RMBS positions that we own are senior in the capital stack. About 45% of these RMBS are floaters and again can have some positive impact if rates do rise. Turnover continues to run at just under 100% annually. Trading activity picked up modestly in September. Importantly, we believe that our size, small compared to many other fund managers, remains a significant advantage in this market and we think that we're right-sized and we think that's going to be a growing advantage over time with respect to the ability to buy and sell bonds.

We haven't and will not utilize leverage in the portfolio and we don't expect to incur the additional cost of hedging. First we're comfortable doing the credit work to understand and assume that credit risk of the bonds we're investing in and second we think that the rate risk of the portfolio remains very low. The portfolio's gross loss adjusted yield to maturity has averaged about 6% over the last quarter. It's still modestly higher than it was last year. The yield for the RMBS portion of the portfolio was about 6.5%. The SEC yield for the institutional class was 4.9% as of September 30th and our yield to maturity – I just want to state that it's based on our expectation for future underlying defaults as well as our conservative assumptions for payments, and we believe both are conservative. The institutional share class dividend year-to-date has been about 6.3% on an annualized basis.

So, looking forward from and what are we thinking. The global markets clearly have had a much better tone post-Brexit, which we believe is largely because of the expectation for continuing and possibly expanding monetary stimulus globally and domestically. Obviously, there have been pockets of weakness like today, from Japan's latest monetary policy release today, from recent Chinese economic statistics and of course the ongoing Fed speak. We think that the Fed's next increase in the target funds rate is most likely going to occur in December and the growing expectation is certainly one reason for the rise in rates we've seen month to date. Of course, we're concerned about the direction of risk assets, once we see this Fed action, and we remain concerned about the direction of global growth and inflation or deflation. There is no question that domestic interest rates and equity markets remain impacted by the yield levels outside the U.S. and the ongoing view that the U.S. may be the one safe haven for investing. But once again by far the primary driver of performance in this legacy non-agency space has been and will continue to be the fundamental credit strength of both the real state sector and consumers. This has led, we believe, to the low correlations between our sector and most other sectors and we believe this has dampened the downside price action of the sector during periods of weakness in other sectors. Loan-to-value and home owner's financial strength continue to steadily improve. Year-over-year home price appreciation nationally is still running about 5% and we believe it will continue to rise nationally albeit at a modestly lower growth rate than that. Home prices nationally, on a nominal basis, are back to where they were in 2006. Employment metrics continue to strengthen at a reasonable pace. So, from a fundamental standpoint, the sector's underpinnings continue to strengthen. From a technical standpoint the non-agency RMBS sector continues to benefit from slowly declining supply. The sector continues to shrink at a

10% or a little bit more per year. You know, much of it is from monthly principle repayments which investors need to redeploy which helps to keep demand strong and we see a growing universe of new investors continually drawn in by the global search for yield. One potential result of the declining size in the market as well as dealers' reduced participation in the sector, of course, is liquidity, which has declined clearly over the last couple of years and as you know is an issue across all fixed income markets. Liquidity was probably at its low point earlier this year in the first quarter both in terms of bid/ask spreads and participation in bid lists. We've seen a significant improvement over this past couple of months, however. Our traders have seen much narrower markets in many of the sectors that we're active in including lower loan count and lower loan balance deals. But even at its low point earlier this year, we certainly found that liquidity was more than sufficient for our investment strategy.

Turning briefly to our sector views, in terms of non-agencies we continue to have good success identifying the track of cash flows at what we believe are attractive yields. They're not as readily available as they were six months ago but here is where our size and nimbleness for most beneficial. We're buying bonds today with the loss adjusted base yields -- base case yields -- in the range of 3.5 to up to 7 and even 8% opportunistically, which fit our credit quality, our spread and our effective duration targets. In our view, the credit quality of these cash flows continues to improve and we believe that our base case assumptions remain conservative, both with respect to overly conservative future default cost and through understating likely voluntary prepayments. Prepayment has continued to slowly increase across most types of borrowers and we expect these borrowers to remain fairly insensitive to the level of rates. Liquidity remains critical to the asset class as it slowly pays down and as individual deals continue to get smaller but again we view this as a growing advantage for us.

We're continuing to find micro sectors offering attractive complexity premiums and with little sponsorship which is an opportunity for a firm like ours to generate higher returns if we're willing and able to do the work. In the CMBS sector we remain cautious. Certain portions of the sector obviously, definitely 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 sector that are under pressure and potentially from more hedge fund selling. We've recently begun seeing some new buyers coming into the legacy mezzanine portion of the market which we think is a positive sign. Again, we continue to find value in certain specific legacy deals and overall as we've talked about recently, we still like the small balance commercial sector. In the agency space, we still believe that on the whole, this sector offers low yield relative to the prepayment and interest rate risk that one assumes. Specified pool pay-ups for some collateral have become less expensive with this recent rate rise and if rates continue to rise there may be opportunities at some point to identify certain securities with attractive cash flow characteristics.

Of course, we like the quality and liquidity and there is a place for a small allocation of the sector in our Fund. In terms of new issue sector, we continue to focus on a number including the NPL sector that I mentioned, the government agency's Credit Risk Transfer deals known as CRT and other types. They're all very deal and collateral specific but some offer very good opportunities. As I mentioned, NPLs offer a good combination of price stability and liquidity. The CRT market has remained volatile but it continues to cement its role as a very important reference sector for directional movement in the mortgage credit space.

We've seen collateral performance continue to do well in that space and today spreads are on the narrow side but we do believe there is a good chance that we will be increasing our participation modestly over the next couple of quarters. In the near term, we expect to continue buying and trading opportunistically taking advantage of good opportunities that likely volatility and uncertainty will bring to bear for us.

We believe we're going to be able to able to maintain the portfolios' relatively high current yield and relatively low interest rate sensitivity. We'll continue to look for value in less sponsored and more complex securities where we can receive an attractive liquidity premium. Given how the mortgage credit space has performed for the last year, we expect the primary source of performance will continue to be from portfolio yield and we expect volatility of prices to be low.

Monthly dividends, which again are made of primarily net interest income have averaged about 55 basis points per month for the last several months and we expect that to continue. So, we think this combination of yield rate sensitivity and improving credit fundamentals will position the Fund well going forward within the universe of bond funds as well as among non-traditional bond funds.

I just want to mention one additional item. Currently, our mutual fund accrues income daily but we accrue and pay dividends monthly. So, that means that income that's earned during the month actually increases the share price over the course of the month and at month end the share price or the NAV declines in an amount equal to the dividend once it's declared. So that creates a perception of price volatility. So, starting on December first, our Fund Administrator U.S. Bancorp is going to change the methodology of this. Income will still be accrued daily but the dividend will now be accrued daily as well. It will continue to be paid out to investors monthly. From an economic standpoint, it's exactly the same to the Fund and to investors. However, the dividend will not build up in the share price as it has with the current methodology. So, while your dividend will be exactly the same, and performance will be exactly the same, you won't see that monthly price drop in the share price. And, by the way, that's what we're already doing with our Short Duration mutual fund. So thank you and I'll pass it back to Greg.

Greg Parsons: Great update, Tom. I know people appreciate the level of granularity and again we're always happy to chat about the portfolio. So I'm very excited. You know, the Fund today is bumping up against $500MM in AUM representing about 20% growth over the last quarter with an extremely robust pipeline looking forward.

We're more than excited than ever about the opportunities we're seeing in the market to drive value, and again I want to thank those on the phone who have been supporters of the Fund for their support to date and extremely excited for those that are new to the Fund for taking the time to join the call.

I'd like to mention once again that our mutual fund website www.semperfunds.com continues to add useful content about both of our mutual funds and the market, including current fact sheets, historical performance, statistics, conference call replays and more. The website and our company website also have growing information about some of the very important initiatives we have with respect to giving back to the community both along the veteran's advocacy platforms and housing programs.

Please check out the website, always open to feedback. A piece of logistics, we'll be making this call available for replay soon on the website. So at this point we will open it up to questions.

Operator: At this time I would like to remind everyone in order to ask a question press star then the number one on your telephone keypad. We'll pause for a moment to compile the Q&A roster. Again that's star one if you would like to ask a question. You have no further questions at this time.

Greg Parsons: Great. Well again, on behalf of Semper Capital, me and Tom appreciate this and look forward to forward dialog and book us up same time, same place next quarter. Thanks again. Bye.

Operator: This concludes today's conference call. You may now disconnect. END