



Semper: Our positive outlook on Residential Mortgage-Backed Securities (RMBS) strengthens in light of Yellen's Fed testimony on rates

Summary: The Fed's modification of forward interest rate guidance did not dampen demand in the non-agency RMBS market. We believe that both demand and outlook for RMBS products will continue to improve, as they offer attractive yield and total return potential on the back of improving economic fundamentals.

The economy is strengthening: the real message in the Fed discussion of rising interest rates

Janet Yellen's testimony on February 24 and 25 was positive, emphasizing the strength of the job market, consumer spending and production. Known as a dovish Fed, this vote of confidence in the economy – while being viewed by some as a signal of rate rises to come – is a strong boost to our positive outlook on the sector.

Strengthening fundamentals indicate home price appreciation, as well as improvements of credit performance and credit availability for American homeowners. We believe these factors will more than offset any effects of rising rates on RMBS valuations, particularly given the sector's lower sensitivity to interest rates relative to other credit and fixed income asset classes.

Furthermore, the market's healthy response to Yellen's comments suggests that the rate implications are anticipated. With continued quantitative easing and record-low sovereign rates around the world, there is no assurance of meaningful increases in medium to long-term rates in the immediate future.

In our opinion, RMBS continue to offer attractive yield in current environment

Investor appetite for yield has been strong in the first part of 2015, and we expect it to increase:

- Alt-A fixed and Prime fixed-rate bonds have been sought out by investors looking for decent carry, as these sectors have posted solid returns
- In our opinion, many segments within the diverse Non-Agency RMBS universe still offer opportunity for meaningful price appreciation, in addition to relatively attractive yields

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¹ Informa Investment Solutions PSN Manager Database as of December 31, 2014. Ranking is based on gross performance (before deduction of fees) across 56 similar mortgage-backed securities products offered by 33 investment advisors that comprise the PSN Mortgage universe. The ranking may not be representative of any one client's experience.

Semper Capital Management, L.P. founded in 1992, is a private, SEC registered, minority-owned and operated investment advisory boutique focused on mortgage-backed securities.

Semper Capital currently manages over \$1.3 billion for a diverse base of institutional and wealth management clients and offers a wide array of MBS products, ranging from index-based passive and active strategies to absolute return hedge fund vehicles.

Our Semper Active Mortgage-Backed Securities Strategy delivered top-quartile performance for the 1-, 3-, 5-, and 10-year periods ending December 31, 2014, according to the Informa Investment Solutions PSN Manager database¹.

For more information, please visit www.sempercap.com.

A blue ink signature of Greg Parsons, consisting of a stylized 'G' and 'P' followed by a horizontal line.

Greg Parsons
Chief Executive Officer