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SEMPER U.S. TREASURY MONEY MARKET FUND MAKING A DIFFERENCE FOR INVESTORS

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The Semper U.S. Treasury Money Market Fund, an innovative Government Institutional money-market mutual fund with a difference, has burst upon the scene and quickly demonstrated the ability to plump up investment returns for its investors.

The Semper U.S. Treasury Money Market Fund (Ticker: SEMXX) was launched April 16, 2018, and has since consistently outperformed all other Treasury money-market funds and, in many instances, most if not all other Government MMFs.

Its uniqueness relies on the strategy employed by the six-month-old fund's portfolio manager, an "active-portfolio management" approach which actively manages the fund's term structure and yield by purchasing and selling U.S. Treasurys and also through investment in repurchase agreements collateralized by U.S. Treasurys. "The manager also seeks to earn incremental yield through the use of U.S. Treasury collateral substitutions for a fee," explained the fund's most recent fact sheet issued by investment adviser Semper Capital Management L.P.

Since its first full month of operation in May, SEMXX has generated about 30 basis points of annualized enhancement each month above the average 30-day SEC yield for competing funds as reported by Atlantic Fund Services. The fund's 30-day distribution yield on Sept. 30, which includes distributed gains or losses in addition to net investment income, was 1.89 percent compared to the 30-day SEC yield average rounded up to 1.63 percent, or an advantage of 26.5 basis points. The highest competitive margin of 35.8 basis points was registered on May 31; it was 32.2 basis points on Aug. 31. The SEC average excludes distributed capital gains/losses.

Performance - As of 9/30/18

	April	May	June	July	August	September
7 Day SEC Yield	1.461	1.46	1.558	1.562	1.622	1.634
U.S. Treasury Alpha PLUS	**0.214**	**0.174**	**0.299**	**0.362**	**0.353**	**0.519**
SEMXX 7 Day Yield	1.675	1.634	1.857	1.924	1.975	2.153
30 Day SEC Yield	N/A	1.426	1.533	1.554	1.585	1.625
U.S. Treasury Alpha PLUS	**N/A**	**0.358**	**0.272**	**0.305**	**0.322**	**0.265**
SEMXX 30 Day Yield	N/A	1.784	1.805	1.859	1.907	1.890
90 Day SEC Yield	N/A	N/A	N/A	1.505	1.558	1.588
U.S. Treasury Alpha PLUS	**N/A**	**N/A**	**N/A**	**0.31**	**0.301**	**0.300**
SEMXX 90 Day Yield	N/A	N/A	N/A	1.815	1.859	1.888

Source: Atlantic Fund Services; N/A=Not Available

Semper U.S. Treasury MMF follows the most recent requirements for Government Institutional money funds under Rule 2a-7 as amended by the Securities and Exchange Commission and seeks to maintain a stable share price of $1.00. Such funds currently account for about $1.6 trillion of $2.9 trillion invested in all U.S. MMFs, according to data provider iMoneyNet. SEMXX requires a minimum initial investment of $10.0 million.

How It Differs from Other Funds

Swapping is key to yield enhancement, pointed out Lewis Goldman, chief executive officer of Goldman Landow Capital LLC, originator of the unique "U.S. Treasury Alpha PLUS" concept which serves as the backbone of the investment strategy followed by the fund's portfolio manager.

The Kroll Bond Rating Agency, while assigning its AAAkf credit quality rating to Semper U.S. Treasury Money Market Fund at launch, summarized how management of the fund's portfolio differs from other Government MMFs this way: "Management plans to allocate a portion of the fund's exposures in the fund by engaging in a series of back-to-back repurchase agreements … (which) may be either tri-party, or back-to-back, offsetting transactions. The latter will be evergreen repurchase agreements with the right of the counterparty to substitute similar collateral with a final maturity date within a 32-day window (+/- 16 days) of the original collateral.

"Traditionally-structured repurchase and reverse-repurchase agreements carry with them a degree of counterparty risk, in so far that the fund borrowing or lending the collateral relies on the entity on the other end of the transaction to make whole their side of the agreement. This 'making whole' would result in the return of the lent security, or the cash purchase of the borrowed security. The proposed back-to-back repurchase strategy is designed to effectively eliminate counterparty-risk, thereby opening the counterparty universe to a broader array of institutions," it was explained, due to the counterparty holding the right to select a substitution Treasury security from a list of so-called "acceptable collateral securities."

KBRA also noted that fund managers expect the fund to see between 75 to 100 such substitutions by counterparties "over the course of a year."

"For purposes of the KBRA Global Investment Fund Ratings criteria," it continued, "we are solely concerned with the credit aspect of the transaction – the substitution. We feel that the proposed structure eliminates any look-through to the counterparty for purposes of the credit matrix, the risk to the fund being entirely to the substitution collateral to which the fund would ultimately own.

"Some aspects to consider in relation to this investment strategy are surrounding maturity and liquidity requirements for money-market funds. Specifically, the potential impacts the maturity window (+/- 16 days) of the substitution collateral may have. These bi-lateral repo transactions will typically be longer dated, capped at 381 days, given the restrictions of '2a-7' Treasury money-market funds holding fixed-rate securities with maturities equal or less than 397 days. Additionally, the fund's WAM/WAL may be extended if a significant amount of the portfolio is replaced with longer-dated substitution collateral. Lastly, the daily (10 percent) and weekly (30 percent) liquidity requirements for money-market funds limit the amount the fund could transact in; 70 percent of AUM at most," the agency wrote.

The Goldman Landow Capital Web site observed that founder Lewis Goldman, due to the increased cost of accessing repo lines, new financial regulations and tightening spreads in a low interest-rate environment, "set out to demonstrate the value of being indifferent to a potential maturity differential of no more than plus or minus 16 days is worth no more than a few basis points. In exchange for asking beneficial owners to be indifferent to this potential maturity extension or shortening, Lew introduced a mechanism which pays the beneficial owner a fee each and every time a collateral substitution takes place. And thus 'U.S. Treasury Alpha PLUS' was born."

Active Management of U.S. Treasury Portfolios Versus Prime MMFs

Recent data shows that the seven-day simple yield of the average Government Institutional fund trailed the Prime Institutional fund average by about 21 basis points, mainly because prime funds invest in higher-risk, higher paying commercial paper, corporate bonds and other nongovernment securities.

Goldman maintains that money managers have been properly following a “keep it safe, keep it simple” philosophy to “keep trading volume low, portfolio turnover low and accounting events to a minimum.” But he adds that has resulted in “opportunities to generate yield enhancements” within a U.S. Treasury money-market fund to usually be missed.

“Modern money-market portfolio management is synonymous with active portfolio management,” as portfolio managers utilizing data analytics and electronic trading platforms can use the repo market to advantage since they also have mastered U.S. Treasury supply and “demand intricacies.” The Treasury market is “so much bigger and actively-traded than all others,” Goldman stated.

The more active management is used, the narrower the yield gap favoring prime MMFs will become, according to Goldman.

“Finance officers can no longer afford to blindly accept increased risk for increased alpha just to keep volume, trading, and accounting events to a minimum. The world is very different today than it was four decades ago, and even different than it was two weeks ago. The landscape for liquidity is not so simple anymore. Investors today realize the risk is just too great when you consider the requirements for liquidity.

“The day of active management of U.S. Treasury portfolios is upon us. Rising rates, increasing government debt, and market volatility will lead to yield-enhancement opportunities which should be captured. Portfolio managers who strive to narrow the gap by looking for yield-enhancement opportunities, within the rules of SEC Rule 2a-7, should seriously consider active management. The increased yield, without increased risk, should make these managers your fund of choice. It’s time to close the gap,” he argued.

The investment adviser of the Semper U.S. Treasury Money Market Fund is Semper Capital Management L.P., which recently held assets under management of about $2.8 billion. Fund documents state that the advisory fee has been contractually reduced from an original amount of 0.40 percent of average annual net assets through a partial fee waiver and/or reimbursement of expenses to 0.30 percent of the fund’s average annual daily net assets, which is expected to be in place through at least July 31, 2019. Total annual fund expenses of 0.62 percent were cited by SCM as of Sept. 30, while net annual expenses of 0.30 percent after waivers were reported on that date.

Thomas Mandel, a co-founder in 1992 of Semper Capital Management, and was the firm’s chief investment officer through 2005, has been portfolio manager of Semper U.S. Treasury Money Market Fund since it was launched. Mandel is a senior portfolio manager with “primary responsibility for the firm’s index-based and short-duration strategies,” according to a regulatory filing.

About the Author: MIKE KRASNER was previously managing editor of iMoneyNet, an Informa company based in Westborough, Mass., and wrote and edited commentary for newsletters and Web postings regarding trends and issues affecting the money-market fund industry and short-duration investment products. He also spoke on behalf of the company at many industry events and in media interviews, and responded to various queries from clients. **Mike.F.Krasner@gmail.com** **508-366-0254.**

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Mutual Fund Investing Involves Risk:

In all cases, investors should consider and refer to the fund's prospectus for specific information about risks, as well as, carefully consider the fund's investment objectives, charges and expenses.

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- **SEC Yield** is computed in accordance with methods prescribed by the SEC. This excludes distributed capital gains/losses. Current yield and SEC yield are equivalent.
- **Average annualized 30-day distribution yields** are based on net investment income and distributed gains or losses for the period shown. Past performance is no guarantee of future results. Yields will fluctuate as market conditions change.
- **The "7-Day Current Yield"** is the average income return over the previous seven days, assuming the rate stays the same for one year and that dividends are reinvested.
- **The "7-Day Current Yield (unsubsidized)"** does not reflect any fee waivers/reimbursements/limits in effect.

Credit Quality Rating: Credit quality rating is sourced from Kroll Bond Rating Agency (KBRA), a Nationally Recognized Statistical Organization (NRSRO). The rating represents the NSRSO's opinion as to the quality of the securities they rate. Credit Quality Rating reflects the credit quality of the underlying securities in the Fund's portfolio and not that of the fund itself. Credit Quality Rating is subject to change and are not absolute standards of quality. KBRA assigns a rating of AAAkf as the highest to Ckf as the lowest credit quality rating for each security held by the Fund.

The Fund is distributed by Foreside Fund Services, LLC

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