SILVERPEPPER
MERGER ARBITRAGE
FUND

4Q 2018

OUR HEDGE FUND EXPERTS SPEAK THEIR MINDS:

NO FREE LUNCH

Tough Cookies

2018 was a brutal year for almost every asset class. For stocks, it was the worst December since 1931 — the Great Depression — and the S&P 500 Index fell 9%. Big volatile swings roller-coastered throughout 2018, and at the end, the S&P 500 Index had lost 4.4%.

And bonds? Investors used to take positive bond returns as a sure thing. But those days are now over. The Fed has been raising short-term interest rates, and long-term rates have been moving upward as well. If the Fed stays true to earlier statements, then there are a couple more raises in short-rates coming in 2019, which will continue to put downward pressure on bond prices. That means your bond mutual funds could have weak performance again — the BarCap U.S. Aggregate Bond Index ended the year with a skimpy 0.01% return, while the average intermediate-term bond fund in the Morningstar database lost 0.5%.

But the SilverPepper Merger Arbitrage Fund managed a positive gain for 2018, eking out a return of 0.44%.* Although it's not great by our historical standards, or even our own expectations, it wasn't so bad in the broader context.

And that broader context is always the risk you take to get a certain reward. It's always a trade off, and we always strive to not lose your investment dollars, and give you consistent returns with lower volatility. In that way, we succeeded in 2018.

Cain't get sumpin' fer nuttin'…

Or, as the pointy-headed economists say, "There's no free lunch." Either way, in the second half of 2018, investors in the SilverPepper Merger Arbitrage Fund paid a price because of our low-risk approach to merger arbitrage investing.

**** The returns represent past performance. Past performance does not guarantee future results. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Call 855-554-5540 for current to most recent month-end performance.***

SilverPepper

SILVERPEPPER MERGER ARBITRAGE FUND INSTITUTIONAL MONTHLY RETURNS (%)													
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2013											0.10	1.00	1.10
2014	-0.10	0.10	0.10	- 1.48	1.40	0.69	0.79	0.68	-0.77	-0.10	1.37	-0.23	2.44
2015	0.60	0.99	0.10	0.29	0.78	0.10	0.48	0.77	0.19	2.47	0.19	1.25	8.49
2016	1.13	0.37	0.00	0.37	0.37	0.18	0.64	-0.27	0.46	-0.18	-0.09	1.25	4.30
2017	-0.18	0.00	0.36	0.36	0.18	0.54	-0.54	0.36	0.90	0.00	0.00	0.57	1.76
2018	-0.18	0.45	-0.36	0.00	0.45	0.18	0.72	0.44	-1.15	0.09	0.63	-0.81	0.44
												One-Year Return as of 12/31/2018	0.44
												Total Annualized Return Since Inception, (11/1/2013)	3.55

The returns represent past performance. Past performance does not guarantee future results. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Call 855-554-5540 for current to most recent month-end performance.

Total gross/net annual fund annual operating expenses are 2.81%/2.68% for Institutional and 2.96%/2.93% for the Advisor shares. The Advisor has contractually agreed to waive its fees and/or pay for expenses to ensure that total fund operating expenses (excluding, as applicable taxes, leverage interest, brokerage commissions, dividend and interest expenses on short sales, acquired fund fees and expenses (as determined in accordance with Form N-1A), incurred in connection with any merger or reorganization, or any extraordinary expenses such as litigation expenses) do not exceed 1.99% for the Institutional class and 2.24% for the Advisor class. This agreement is in effect until October 31, 2028.

Inception dates for both share classes is October 31, 2013. Performance and risk measures greater than one year are annualized.

In particular, two deals cost us in the second half. And, man, those two deals really hurt our heads. Both suffered from some of the weirdest dramas I have ever seen unfold in my career — and that's saying a lot.

In one deal, the buyer got hinky. And in the other deal, the seller got hinky. But in both, I got out, soon after the doubts about the deals rose up, and the stock prices got swatted down. Yep, I purposely took a loss, but I did so to avoid the risk of a bigger loss, if the deals fell apart completely.

Because when a merger doesn't close, it makes for a bad event. The stock of the company being acquired can drop 30%, in a New York nanosecond. And if that stock was 10% of your fund, that's a loss of 3% in a single day. That kind of loss might take a while to make up.

When the Facts Change, I Change My Mind:

Hinky Deal #1

The first hinky deal was Energy XXI Gulf Coast (EGC), an energy production company with wells down in the shallow waters of the Gulf of Mexico. EGC, a small company with a market cap of about $350 million, was being acquired by privately-held Cox Oil LLC, for $9.10 per share. The deal was approved by shareholders on September 6th and was scheduled to close on September 10th. On that morning, I was expecting the deal to close, and thereby have $9.10 per share delivered into the Fund's account…

Instead, I got a press release from EGC, announcing that the transaction would not close that day, but instead be extended for one month. Yet, in the announcement, they didn't say one peep about the reason for the delay. That's a bad danger signal, and it caused the EGC stock price to decline over 6%.

Now I don't just cut positions automatically. That would be too easy. As always when a deal is stressed, my team and I search for additional information, particularly on whatever is causing the headache. So, we jumped into research mode. We picked up the phone and made immediate attempts to discover the reason for the delay. I even got the CEO on the phone, but he offered no clues. And so, faced with this extraordinary deal uncertainty, we began liquidating our position on the day of the announcement. And within two weeks, we were entirely out.

In the absence of news on the deal, the stock continued to decline over that period, until it bottomed out on September 20th, down over 30%. Because of this deal, over this period, we estimate that the Fund lost about 1.1%.

The deal was delayed two additional times, but eventually closed in mid-October. While we clearly would have profited if we had held on, we chose to exercise our commitment to our conservative, risk-controlled process. It's right there on the first tile of our website:

> ***Cut positions quickly if questions arise about the successful completion of a merger, because when the bride is left at the altar, it makes for a bad event.***

Hinky Deal #2

The other deal that caused a headache for the portfolio is still raging on — but it's not in our portfolio anymore. Vintage Capital was planning to buy Rent-A-Center (RCII), a provider of rental furniture. The deal ran into a small delay, as government regulators wanted to make sure there was no competitive overlap in any of the local markets in which both firms operated a rental store. In the event of such delays, the merger agreement allowed both sides to extend the deal. It's usually a perfunctory exercise.

However, for some reason, Vintage Capital failed to deliver a written notice of extension to Rent-A-Center as required to extend the deal. So Rent-A-Center (even though it recognized the need to provide notice), didn't extend the deal! Instead, on December 18th, Rent-A-Center issued a press release saying they were walking away from the deal and expected to collect the $126.5 million termination fee from Vintage.

Talk about shocking. Frankly, I don't ever recall something like this ever happening before. Generally, well-paid M&A lawyers file the necessary forms on time, and generally, the target company is eager to get the deal done and collect the deal premium for their shareholders.

In response to this unprecedented shock, the stock price tanked, and rumors began flying. Perhaps Rent-A-Center management thought that they could collect the termination fee, and then sell the company to another bidder? Or maybe this was a negotiating ploy to demand a higher price from Vintage? Or maybe, because of Rent-A-Center's improving earnings, management decided they could offer more to shareholders as an independent company? I'm not exactly sure what they were thinking, but I do know Rent-A-Center was clearly the antagonist in this drama.

In the face of a 10% decline in the stock price, and no clear guidance from the CFOs of either company, I bailed on the deal, selling a big chunk of stock the day the deal soured. And the following day, when the stock rebounded, I sold the rest.

Soon after, Vintage Capital and its affiliates insisted that the deal was still on, and that Rent-A-Center would be purchased under the existing, agreed-upon terms of the contract. The stock rose on this optimism and is now above the price Vintage agreed to pay. This suggests market participants believe another bid is coming, or the company is on the rebound. The status of the deal remains in dispute, and highly uncertain — possibly to be resolved in court.

Why did we get out? The deal moved from an announced merger to something else entirely. And we only invest in announced mergers. I estimate the Fund suffered a 60 basis point loss on this headache.

Had these deals gone as planned, we estimate our fund would have earned 1.7% more, or about 2.14% total for the year. But that makes it clear — the price for getting out of the deals, and keeping risk low, is accepting low returns. That's the risk/return tradeoff. It happens all the time in investing. You take the good with the bad — high return, high risk; or low risk, low return. You can't get both high return and low risk — and if someone promises you that, they might be working for Bernie Madoff.

We've always said we're after low risk; we don't want you to take a big hit to your principal. We are just trying to live up to our mantra of "Dime after Dime, Time after Time." And so sometimes that means we need to take a small hit, when things start to go wrong in a merger deal. Why? Because…

…A Smaller Loss is Better

When a deal goes bad, the size of our stake matters. These two bad deals illustrate one of the key components of our risk-control process. We size each merger deal in the portfolio based on expected downside risk. We measure downside risk as the difference between the current market price of the company to be acquired, and the price of that company before the merger announcement. Therefore, each merger deal is sized within the portfolio such that, if something goes wrong, and the stock starts to fall back to its pre-announcement price, we attempt to limit our downside to approximately 2% to 3% of the assets in the Fund.

And, fortunately, because we often get out at the first sign of bad news, we were able — with both the Energy XXI Gulf Coast deal, and the Rent-A-Center deal — to keep our losses below that 2% target. In addition to position-sizing, we also diversify across deals and industries to limit deal risks. As a result, we try to hold about 25 to 30 deals in the portfolio at one time.

We also try to control risk by being picky about the types of deals we invest in. Generally, we prefer: 1) well-financed acquirers; 2) purchasing for strategic objectives rather than for purely financial perspectives (like a private equity firm might prefer); and 3) mergers between smaller companies, which are more likely to go under the radar screen of stickler regulators and nosy politicians.

These smaller deals have other advantages as well. Many of our big competitors can't invest in these small-cap deals — a 5% stake for the biggest merger arbitrage funds amounts to more than $100 million, which means that they can't meaningfully participate in deals, when the entire company is only worth a couple hundred million.

All of these things, we believe, give the Fund some long-term advantages in merger arbitrage investing. For even though our strategy leads us now and then to sacrifice returns in order to keep risk low, our long-term returns stand up nicely, both against our merger-arbitrage peers and category, over the trailing five-year period.

Indeed, we are happy to report that SilverPepper Merger Arbitrage Fund's (SPAIX) 3.5% annualized total return puts the Fund more than 50 basis points ahead of its closest peer, or those funds that primarily follow a merger-arbitrage strategy. Similarly, also based on total return, the Fund stacked up well against its broader Morningstar category, "Market Neutral," ranking 5 out of 88 funds for the five-year period ending December 31, 2018.* And, the Fund's 3.5% gain dwarfs not only the average fund in the Market Neutral category by close to 300 basis points, but it has accomplished this result with much lower risk as well.

The Outlook for Mergers in 2019

We think the overall merger environment will remain positive. But don't just take our word for it. Ernst & Young recently announced: "The momentum in the current M&A market, combined with the compelling rationale to transact, has translated to the strongest outlook for the M&A market in the history of our barometer. There is near unanimity that the deal environment will improve or remain stable over the next 12 months."

And remember the Big Picture.

You know, the S&P 500 Index has been ripping upward for years, causing most of us to forget what risk feels like. But in 2018, the stock market's record volatility and ultimate loss may signal the end of the 10-year bull market. And if that's case, one good idea might be to take some of that higher-risk money out of your stock portfolio, and put it somewhere safer.

The SilverPepper Merger Arbitrage Fund can play a role in your portfolio by being different from many of the other funds you may own. Because the successful completion of a merger has so little to do with stock-market risk, our Fund has very low correlation to stocks, clocking in at just 0.12, since the Fund's inception. That makes our Fund an especially good candidate to diversify your portfolio, not only from the broader global-economic risks embedded in stocks, but also from the interest-rate risk that infects bond prices. So, consider rebalancing into the SilverPepper Merger Arbitrage Fund, which has earned around 3.5% per year since its inception five years ago, with volatility of just 2.19%.

Finally, thank you to our investors, whom we believe have invested with us over the years for the steady returns we try to provide, regardless of the market climate. We believe our low-correlation strategy, combined with our conservative approach to money management, adds up to an appropriate tradeoff between risk and return.

We hope that's why you're here, because that's what we do best — and we believe it will be an enduring advantage for the SilverPepper Merger Arbitrage Fund.

With respect,

Steve Gerbel

Portfolio Manager

SilverPepper Merger Arbitrage Fund

Performance Rankings: Morningstar rankings are assigned based on total return. The ranking Includes all funds within the Morningstar category "Market Neutral." The SilverPepper Merger Arbitrage Fund Institutional Share class (SPAIX) was ranked 5 out of 88 funds for the five-year period ending 12/31/2018 and 66 out of 117 funds for the trailing 1-year period ending 12/31/2018. Source: Morningstar Direct. Past performance is not indicative of future performance.

Investors should carefully consider the Fund's investment objectives, risks, charges and expenses. Please see the prospectus for a complete discussion of the risks of investing in this Fund. To obtain a prospectus, please call 855-554-5540 or visit silverpepperfunds.com. The prospectus is boring but should be read carefully before investing.

All investing involves risk including the possible loss of principal. There can be no assurance that the Fund will achieve its investment objective. For the Merger Arbitrage Fund, the primary risk is event risk, which revolves around the successful or unsuccessful completion of an announced merger or acquisition. If a merger doesn't close as expected, the fund could lose money. Other risks include smaller companies risk, foreign investment risk, derivatives risk and non-diversification risk.

IMST Distributors, LLC