



SILVERPEPPER
COMMODITY
STRATEGIES GLOBAL
MACRO FUND

2Q 2017

OUR HEDGE
FUND EXPERTS
SPEAK THEIR MINDS:

**SIGNS
OF A BULL**

THE NUMBER 1 PERFORMING COMMODITIES FUND

We are pleased to report that the **SilverPepper Commodity Strategies Global Macro Fund** (SPCIX), since its inception, out of 104 Funds in the Morningstar Category “Commodities Broad Basket,” is **The Number 1 Performing Commodities Fund**.¹

Since inception, we have produced better returns than the Bloomberg Commodity Index — with 2/3 less risk. Our risk-adjusted performance has also resulted in the Fund receiving a 5-Star Overall Morningstar Rating, out of 112 funds in the Morningstar Category, "Commodities Broad Basket," as of June 30, 2017.

Active Management

We ascribe this Number 1 status to our Active Management. You see, unlike stocks or bonds, commodities produce zero return. While bonds pay interest, and stocks pay dividends, 50 tons of corn just sit in a silo. So, to profit from commodities you have to buy them low and sell them high, and go long or short when necessary. It takes **Active** Management, to analyze the supply and demand of a particular commodity, and attempt to profit on its future price action.

We conduct “Fingernails-In-The-Dirt Research.” It gives us an edge. Whether it's traveling to Brazil to check flowering on coffee trees, or monitoring corn production at our proprietary **Galtere Research and Development Center, in Minnesota near the Iowa border**, it is a crucial advantage in understanding the supply and demand of individual commodities.

Commodity markets have taken a beating for much of the past nine years, after being a spot of robust, non-correlated returns from the 1970s onwards. Despite the turbulence of late, we are seeing indications that a number of individual commodities are due for a comeback. We believe this, because many of them are trading below the cost of production.

That makes us bullish on commodities.

¹ *Performance rankings are assigned based on total return. Since inception time period 11/1/2013 to 6/30/2017. Includes all funds within the Morningstar category, “Commodities Broad Basket,” as of 10/31/2013. Past performance is not indicative of future performance.*



Ready To Run With The Bulls

We are the most bullish we have been since the inception of the SilverPepper Commodity Strategies Global Macro Fund. Indeed, we have lifted the Fund's exposure to commodities to 130% of our net asset value, reflecting our overall optimism for a rising tide.

Nonetheless, we think the commodities rebound will be haphazard. It will not impact each and every commodity uniformly, but differently, and over different time horizons, based on each distinct commodity's individual supply and demand curves. The entire commodities index may not go up. And, that is where our active management — our fingernails-in-the-dirt research — becomes an advantage in uncovering the supply and demand imbalances within each commodity. Today, we see positively skewed risk and reward opportunities, ranging from natural gas to coffee and cattle. And although I am not going to Pamplona, I do feel as if I have a portfolio that's ready to run with the bulls.

According to Ibbotson Associates, commodities were the best performing asset class from 1970 to 2005.² Economic growth, particularly in China, was a main driver. China, with the largest population in the world (close to 1.4 billion people currently), had an economy that was growing 8-plus percent a year. It stirred demand for commodities. Oil for engines, corn for feed and food, and copper for plumbing in high-rise apartment towers, fed what seemed to be a never-ending demand for the things that make the world run — commodities.

Across the globe, in response to the strong demand, new acreage was planted, new mines were dug, and new wells were drilled. In addition to this large, long-term investment in supply, supply was further bolstered by enhancements in productivity and technology. Genetic seeds increased yield, and fracking exploded supply, and reduced the cost of pulling oil and gas from the ground. **The ingenuity of farmers, miners and drillers amazed everyone.**

What Went Wrong

Well, the 2008 Financial Crisis put a wet towel on commodity prices. Since then, the supply and demand of each and every commodity has been trying to find equilibrium. And it hasn't been easy. Globally, we are in the eighth year of the greatest monetary expansion in history. The Bank of Japan and the European Central Bank debunked the sane idea that interest rates could never go below zero. All this helped paper assets, as central banks tried to push stock and bond prices higher. Bonds rallied, and stocks zipped higher. In contrast, commodities suffered as global growth stalled, and forced commodity producers to figure out how to respond to the lower demand that has persisted since the aftermath of the Financial Crisis.

² *"Strategic Asset Allocation and Commodities," Ibboston Associates, March 27, 2006.*

Trump-Bump To The Rescue?

But sentiment, halleluiaah, has shifted! The Trump Bump (the S&P 500 is up 18% since his election) is the most obvious sign. But we have also had 78 consecutive months of job growth, inflation is around the Fed's 2% target, and even the French — with Macron's new employment policies — might jump start much needed European economic growth.

Let's be clear, growth isn't rampant, but expectations are far improved. Moreover, after 10 years of economic malaise, some commodities are finding their equilibrium, as lots of the excess supply has been taken out of the market.

Ener-Getic

With 130% exposure to commodities, we have made a meaningful allocation of the Fund's assets into energy commodities. During the first six months of 2017, we had exposure to WTI Crude, Brent Crude, gasoline, heating oil and natural gas. These commodities, traditionally, are among the most volatile of commodities. That, along with our "overweight" in the sector, lifted the Fund's volatility in the first half of the year, and the sectors' performance explains nearly all of the Fund's negative returns for the quarter. The Fund was down -6.89% for the past six months, while the Bloomberg Commodity Total Return Index was down -5.26% during the same period.* Despite the downturn, we like our positioning.

Gas For The Future

Our largest position is natural gas. We started to build a differentiated position in natural gas coming into calendar year 2017. And, we have continued to grow the position throughout the first half of the year. We have taken this bullish stance because we see many positive factors impacting natural gas, particularly on the demand side.

If you read the paper, and if you have seen natural gas prices fall to sub \$3 territory, you know we have lots of natural gas being supplied. It's fracking. It's changed the game. **The U.S. has become the largest natural-gas producer in the world.** We now produce 70 to 72 Bcf (Billion cubic feet) of gas per day, up from 55 Bcf per day in 2008, according to the Energy Information Association ("EIA"). So, supply is large. Large supply has lowered prices. And, with the market believing prices will stay low, folks are making long-term decisions to use more natural gas.

And, that is what we think makes natural gas so interesting — the long-term shift in demand. Over the past decade, there has been enormous governmental pressure to move away from coal, because coal is dirty. When coal burns, it emits sulfur, nitrogen oxide and carbon dioxide (coal is about 40% to 90% carbon by weight). And coal has been a large source of electricity because it satisfies important criteria — it's cheap. But, natural gas keeps getting cheaper.

**The returns represent past performance. Past performance does not guarantee future results. Investment will fluctuate so that and investor's shares, when redeemed, may be worth more or less than their original cost. Performance shown is as of date indicated, and current performance may be lower or higher than the performance data quoted. To obtain performance as of the most recent month end, please call 855-554-5540.*

Cheap Natural Gas Begets More Demand

As a result, power plants are switching their fuel source because the price is so compelling. Across the U.S., nuclear plants are being decommissioned because they can't compete with gas prices at \$3. According to the EIA, in 2008, 43% of the U.S. electricity market was produced by coal, and 20% by gas. Since then, coal has shrunk as the preferred energy input for electricity to about 33%, and gas has picked up all the market share coal has lost, rising to 33%.

Meanwhile, foreign countries are increasing their importation of natural gas. Mexico alone is importing more than 4.2 Bcf per day. If Mexico makes some infrastructure improvements to its pipeline system, this could suck even more inexpensive U.S. gas across the Mexican border. In total, our research suggests that demand growth will require that 78 Bcf per day be produced. That means 6 to 8 Bcf more per day, in U.S. production, by the end of 2018. That's a pretty big hurdle. It will require more wells, more drilling and more pipeline infrastructure.

At current prices, we don't think supply is going to catch up to demand. That's because we know that people respond to incentives. Now, with the natural-gas futures market falling into "backwardation," the incentive to produce more gas has diminished (backwardation simply means that prices today are higher than prices tomorrow). And, those lower future-prices, give producers little incentive to invest in more production in the future. Indeed, many drillers are cutting their capital expenditures (which is the critical signal of the amount of money being invested in future production), because they are trying to increase current cash flow, at these low prices, to pay interest on their debt.

In fact, according to the EIA, after analyzing 54 publicly traded U.S. oil and gas producers, capital expenditures for exploration and development in the 1st quarter of 2017 were \$16 billion, or about \$8 billion lower than the quarterly average from 2012 to 2016. Therefore, we believe that natural-gas futures prices must increase to incent producers to invest in future production, and allow them to lock in a profit for that future production.

Structured To Fit Our Viewpoints

These are the reasons we are bullish on natural gas. From a risk/reward perspective, we think we could see, in normal weather, 20 cents of downside, in contrast to \$1 dollar of upside. In more extreme weather, we believe we could see 20 cents of downside to \$2 dollars of upside. That's a five-to-one reward-to-risk profile. It's a skew we like.

Importantly, we structured the trade quite differently than most investors in the commodity space. We obviously have a view on price, and how it relates to supply and demand. So, we wanted to position the trade, and the portfolio, to reflect our long-term view that prices in the future must increase, in order to incent investment in new supply. To do this, we purchased natural-gas “calendar strips” for the years 2017, 2018, 2019 and 2020. This means we bought natural gas futures-contracts for every month, from January to December, all the way from June 2017 to the end of 2020.

Widow-Makers Are Risky For Commodities Index Funds

How we structured the trade provides us with two tangible benefits when compared to, let’s say, an index fund. First, the trade is better aligned with our investment hypothesis. That’s clear. But secondarily, it allows us to significantly reduce the overall volatility of our natural gas position. Why? Well, an index fund simply buys the front-month futures contract. However, in natural gas, that front-month contract has earned the moniker, the “Widow

SILVERPEPPER COMMODITY STRATEGIES GLOBAL MACRO FUND INSTITUTIONAL MONTHLY RETURNS (%)													
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2013											0.10	0.00	0.10
2014	-0.30	0.00	0.50	0.00	0.10	0.70	-0.69	0.00	-1.59	-0.61	-1.43	-3.41	-6.59
2015	-0.43	-1.72	-1.42	1.11	-0.11	0.33	-2.52	-0.67	-1.13	-0.23	-0.57	0.00	-7.17
2016	-0.46	-0.23	1.51	0.69	-1.48	3.00	-0.22	-1.57	1.17	0.45	0.78	1.11	5.30
2017	0.33	-1.31	-1.66	-1.69	-2.06	-0.70							-6.89
One-Year Return as of 6/30/2017													-4.81
Total Annualized Return Since Inception (10/31/2013)													-4.31

Total annual fund operating expenses the SilverPepper Commodity Strategies Global Macro Fund Institutional Class shares are 2.15% gross, 1.84% net; and 2.40% gross, 2.09% net for the Advisor Class shares after contractual fee waiver and/or expense reimbursement. The Advisor has contractually agreed to waive its fees and/or pay for expenses to ensure that total fund operating expenses do not exceed 1.99% for the Institutional share class. This agreement is in effect until October 31, 2026, and it may be terminated or amended prior to the end of the term with the approval of the Trust’s Board of Trustees.

The returns represent past performance. Past performance does not guarantee future results. Investment will fluctuate so that and investor’s shares, when redeemed, may be worth more or less than their original cost. Performance shown is as of date indicated, and current performance may be lower or higher than the performance data quoted. To obtain performance as of the most recent month end, please call 855-554-5540.

Maker,” because it can be soooo darn volatile. In natural gas, changes in weather can cause extreme changes in prices. It can kill you.

Consider the Bloomberg Commodity Index. It has about an 7% weighting to natural gas.

But because it invests in the “Widow-Maker” front-month contract, that position contributes about 10% of the Index’s 60-day Value-at-Risk. In contrast, our far larger 52% position contributes only about 19% of the portfolio’s 60-day Value-at-Risk. This gives us the ability to hold a larger position that we have confidence in, and still keep expected risk in-line with that of the Index.

It’s Not Your Father’s OPEC

OPEC, the Organization of Petroleum Exporting States, just can’t control market prices like they did in days of yore.

OPEC wants to get prices above \$50 a barrel. To do it, they act in unison to agree to control exports and production. But, they can’t control their own cartel members, and they are having an even harder time with U.S. producers. Hence, in the first half of the year, oil fell from \$53 a barrel to \$46 a barrel, a 13% decline.

Control of the oil market is hard to achieve because OPEC members have been known to cheat.

According to the Paris-based International Energy Agency, OPEC’s compliance with their agreed-upon production cuts was 78% in the month of June, down from 95% compliance in May. Several members, including Iraq, Algeria and Venezuela exceeded their production quotas. And, members that were not being asked to participate, namely Iraq and Libya, have jump-started production in their worn-torn countries, increasing production by about 700,000 barrels per month from earlier in the year. In total, the OPEC Agreement calls for cuts in production of 1.8 million barrels a day until March of 2018. However, the greater than expected production from the rogue members, and Iraq and Libya, has clearly hampered the impact of the designed OPEC cuts.

Free-Market Heroes

The biggest smackdown to OPEC, however, isn’t its own members. It’s U.S. frackers. **The frackers continue to be the free-market wild card when it comes to production.**

With the freedom to drill as they see fit, they began growing production as oil headed above \$50. Look at the numbers. According to Baker Hughes, a provider of services to the oil industry, the active rig count increased, by 115% at the end of the second quarter. The rig count grew to 756 rigs from 351 rigs just a year earlier.

But, if you dig into the rig count, it's a bit more interesting. About 64% of the new rigs coming into production are in the Permian and Eagle Ford Basins. These basins are typically considered to be among the lowest-cost spots to drill. Therefore, when oil prices were rising and bobbing above \$50, these low-cost drillers thought they could make a profit. But, to make a profit in the other basins is a bit tougher. So, we suspect that if oil drops below \$40, rigs get idled. And unless oil starts climbing above the \$50 to \$55 range, we probably won't see much more production come out of the higher-cost basins.

We didn't own any oil in 2014 and 2015. We just didn't like the long-term supply and demand when it was \$90 a barrel. We started buying in the third and fourth quarters of 2016, though. We scaled in, as we often do, by selling put options around \$45. By selling puts, we determine a price that we are happy to own oil (in this case, \$45 per barrel), and at the same time we collect a premium, which makes our effective purchase price even lower. Although we are about break-even on where we entered our crude oil position, we did record a loss for the first six months of the year on the position as prices declined from \$53 at the beginning of the year to close the quarter at \$46. Although we had only 10% of the portfolio's assets in oil (it has about a 13% weight in the index) and also owned some put options to provide partial protection against lower prices, oil still contributed to a 3.1% reduction in the Fund's net-asset value for the first half.

Currently, we still like where we own oil. Yet, we think — broadly speaking — oil is range bound in the \$42 to \$49 area. We, therefore, will continue to pay close attention to inventory, summer demand, and rig counts (Baker Hughes has a new app, Rig Count, if you want to follow along). We'll also be watching OPEC's willingness to voluntarily cut their production. We predict if they do, frackers will respond with more drilling, muting OPEC's efforts to manipulate prices higher.

G.O.C.D. – Global Obsessive Coffee Disorder

Yes, the world can't get enough of the stuff. They drink it on weekends recreationally, and on weekdays medicinally. Just look at global coffee demand. Total coffee demand (both Arabica and Robusta) is up more than 12 million bags in the past 5 years, as consumption has grown in the U.S., and even more in former tea-drinking countries like England and China.

Brazil is the largest producer of coffee, accounting for about 30% of global production. We are about half-way through the 2017 harvest, and several Arabica-producing regions, like Brazil's Parana and Minas Gerais regions, could see this year's production lag the 2016 crop by 10% to 20%.

Big, annual swings in production are common for coffee growers. Indeed, it's a "feast vs. famine" occurrence known as Brazil's "biennial cycle." It's a cycle that is natural to coffee trees, in which years of bountiful harvests are followed by less robust harvests. In decades past, this boom and bust cycle often saw yields

fall 40% from peak to trough. Although upgrades in farming techniques, pruning, and the planting of more resilient Arabica tree-stock have reduced the disparity in this boom and bust pattern, the pattern still exists.

With about 60% of the 2017 crop harvested, it appears we will see a 10% drop in production. Bean sizes are small this year, too, likely due to weather stress last year, meaning growers will have to add more beans to the bag to harvest a pound of coffee. As a consequence, we think the coffee supply will shift from a material surplus in 2016, to a deficit this year. We see this as a potential opportunity for the Fund.

During the first half of the year, prices for Arabica coffee fell from about \$1.45 per pound in January to about \$1.15 in June. The price has been negatively impacted by a number of factors, ranging from a weak Brazilian currency that has been pummeled by Brazil's political situation (the conviction of President Dilma Rousseff, and the presence of an ongoing, prolific, corruption investigation among the political elites), as well as the strong 2016 harvest which left roasters with a full-figured inventory. In addition, we saw financial speculators take a record short position in the first half of the year, that has pushed prices out of whack with the fundamentals of supply and demand.

Although the remaining 40% of the crop has yet to be harvested in this biennial-cycle year, we believe it will continue to disappoint. Furthermore, if a weak crop forces inventories to be drawn down over the next 3 months, there is the potential that financial speculators could be nudged into covering a record short-position in coffee. This could lead to a rally to \$1.60 or \$1.80 a pound from the current \$1.25.

If we are wrong, we think prices could slide back to \$1.15 a pound. So, from June's price of \$1.25 we can see 10 cents of downside, with 35 cents or more of upside if we are right, creating an attractive 3 to 1 reward-to-risk tradeoff. If we are right, it could provide a little caffeine rush to the portfolio.

Active Management: Investing For The Next Decade

We are the #1 Performing Commodities Fund, since inception, in our Morningstar Category, "Commodities Broad Basket." We aren't investing for another great year, but for a great decade. And I hope this letter helps you better understand our strategy and its differentiating aspects.

We are active investors. We are not index-huggers. We have a view on commodities, and we put our view to the test, every day. We have the freedom to invest in an array of asset classes — commodities, currencies, bonds, and equities — that are influenced by changes in commodity prices. We invest in these assets based on our understanding of supply and demand, which is based on our own "Fingernails-In-The-Dirt Research." Our global-macro freedom and research drives investments in commodities that aren't in the Index, such as platinum and cocoa, to name a few.

We often hedge our bets, to help protect and preserve assets. And because each individual commodity, such as sugar, copper and natural gas, respond to their own varied factors, we invest with zero concern for the Index, but with full concern for value.

We think this is a smarter and less volatile way to invest in global commodity markets.

To date, we have proven this to be true. Nonetheless, we need to keep getting better. But we want you to know that at the SilverPepper Commodity Strategies Global Macro Fund, we are working diligently every day to grow your hard-earned assets, and provide true diversification for your investment portfolio.

With warm regards,

Renee Haugerud

Portfolio Manager

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. The Commodity Strategies Global Macro Fund's risks are defined by its freedom to trade both long and short positions in an array of asset classes and investment instruments located anywhere in the world. Long positions could fall in value and short positions may rise or be imperfect hedges. Specific risks include futures/ commodities risk, derivatives risk, Subsidiary risk, high fee risk, tax risk, foreign investment risk and non-diversification risk. Please see the prospectus for a complete discussion of the risk of investing in this Fund. To obtain a prospectus, please call 855-554-5540 or visit silverpepperfunds.com. The prospectus should be read carefully before investing.

As of June 30, 2017, notional exposure of futures and/or options in Natural Gas were 52%, WTI Crude Oil, 7.78%; Brent Crude Oil, 3.22%; and Coffee, 8.93% of the SilverPepper Commodity Strategies Global Macro Fund's total net assets. Portfolio holdings are subject to the change without notice and are not intended as recommendations.

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