SILVERPEPPER COMMODITY STRATEGIES GLOBAL MACRO FUND

2Q 2018

OUR HEDGE FUND EXPERTS SPEAK THEIR MINDS:

BUZZ KILL

Buzz Kill

The Trump Tariffs were a buzz kill to commodity markets. We entered the year bullish on commodities. We believed, and still do believe, that the demand for commodities will be driven higher by President Trump's Tax Cuts, the good economic growth in both developed and emerging economies, and major infrastructure projects across the globe. We believed these factors would turn around the tepid demand growth for commodities that has existed ever since the financial markets were tossed about in 2008's Great Recession. With economic growth on the rise, and some commodities trading below the cost of production, we positioned the portfolio at the beginning of the year for rising commodity prices, pushing the SilverPepper Commodity Strategies Global Macro Fund's commodity exposure to 130% of net assets. We were in the "Ready Position" — we were ready for action. And commodity prices, as we expected, moved higher to start the year.

But then came tariffs…

The first U.S. tariffs were imposed on Chinese washing machines and solar panels. "The Chinese are ripping us off," Donald Trump often said on the campaign trail. And indeed, washing machines were being dumped into the U.S., in an attempt to push American manufacturers out of business, in particular, Whirlpool. Likewise, the Chinese government had declared, years ago, their industrial policy strategy to dominate the solar market worldwide. They greatly subsidized their production of solar panels and modules. The result was that by 2017, the U.S. solar industry had almost disappeared, with 25 companies closing since 2012. Finally, in 2017, one of the two remaining U.S. producers of solar cells and modules declared bankruptcy, and ceased production.

And the tariff talk ramped up quickly from there. In March, announcements rang out from the White House about instituting a broader set of tariffs — 25 percent on steel, and 10 percent on aluminum imports, scheduled to go into effect in June 2018, on $50 billion of Chinese exports.

Well, you know the story. Everyone got upset at the tariffs — China, France, Germany, Mexico, and even the mild-mannered Canadians. And for every action, there is an opposite and equal reaction. The Chinese went tit for tat, imposing tariffs of their own on U.S. goods, with a heavy emphasis on agricultural goods, entering their country. Markets hoped this was a lot of hot rhetoric, and that the tariffs would never go into effect. They embraced comments from Treasury Secretary Steven Mnuchin, who declared in May that the tariffs were "on hold."

In addition, the market has been incredibly complacent about the level of natural gas in storage. We continue to believe that storage levels are quite low and need to be beefed up. Currently, there are 2.1 trillion cubic feet of natural gas in storage, which is about 700 billion cubic feet less than last year, and 26% below the average level of storage from 2013 to 2017. This puts the market in a precarious position. If the warm summer weather continues, people will need more electricity for air conditioning, and increasingly, electrical plants are powered by natural gas.

We built our position on natural gas a year ago. We expected prices to be higher by now. But since then, natural gas has been range-bound, stuck near $3 per Bcf. We acknowledge that we have been early on this trade. But we build positions in the Fund based on the expected risk and reward of each commodity, and this still looks attractive to us — maybe $0.40 of downside with $1 to $2 of upside.

Double Whammy

Grains, such as corn, soybeans and wheat, took it on the chin in the first half of the year, especially in the closing days of June. The grains sector accounted for about half of the Fund's total losses during the period. In particular, soybeans suffered, because China put a bullseye on this big export item. Chinese President Xi Jinping, who as a 32-year-old Communist Party bureaucrat, actually visited Iowa and stayed with a host family, was keenly aware that agricultural goods were great financial and political targets. For example, last year, U.S. farmers sold about $14 billion of soybeans to China — and that's about 30% of U.S. production. So Xi knew, when drafting his retaliatory list of tariffs, that hurting U.S. soybean farmers would be a powerful shot, aimed at Trump's core red-state electoral support.

However, tariffs weren't the only factor sending grain prices lower. The size of the crop was another problem. During the past three weeks, I have been walking the soybean and corn fields in Minnesota, at our proprietary research and development center, as well as touring other farmers' lands throughout the Midwest. Generous rainfall and warm temperatures have created wonderful growing conditions — crop yields could be really large — and so the market is expecting a bin buster. And the current price drops reflect this "big crop" fear.

Because of these two concurrent factors, soybeans took it on the chin. In June alone, soybeans fell 15.3% percent, contributing to a total 11.6% drop in the first six months of 2018. Soybeans fell to about $8.50 a bushel, well below the farmer's costs, which are about $9.50 to $10 a bushel. Same thing for corn. It closed out the first half at $3.37 a bushel, yet costs to grow corn are about $3.50 to $4.00.

Where do grain prices go from here? The grain sector could rally, if, after pollination we get some extended hot weather. That could cause some yield loss, which could boost prices. On the other hand, if the weather is benign, prices could go lower. However, I don't like to short corn and soybeans when market prices are below

the cost of production. That's because once prices fall below the cost of production, farmers will try and cover their costs, and will hold back crops, to push prices higher. That's why we will be buying call options as a technique to scale in to a larger position of corn, if prices get into the $2.75 to $3.30 range.

Recovery Rally?

Overall, we still believe commodity fundamentals are good. Many commodity prices are below the costs of production. And global growth, as well as infrastructure build-outs, should increase demand. The recent geopolitics have been an unfortunate distraction. Yet, the global uncertainty could take markets lower, and last longer than expected. What's more, other negatives remain, such as more strength in the U.S. dollar, which could also stall demand for commodities abroad. Nonetheless, we absolutely believe that this recent uncertainty has created even more opportunity for us. Prices are lower almost across the board, and demand can still continue to exceed supply among many commodities. As agricultural, metal and livestock commodities catch up with the energy sector, **we would not be surprised to see a recovery rally in commodities across the board.**

Portfolio Diversification

Despite the challenging commodities markets, we have been able to outperform the index since the Fund's inception, and to mitigate losses due to our deep research on commodities and risk management expertise. While I do not like posting negative returns, we **believe** that in the long term our bullish commodities views will come to fruition, as the entire commodities sector, with the exception of crude oil and lumber, is in the undervaluation zone — both on our Price Analysis model, and fundamentally.

Moreover, we continue to believe in the diversification benefits of commodities. And a recent article in the Financial Analyst Journal, entitled "Commodities for the Long Run," backs us up.[1] AQR Capital Management researchers, in conjunction with NYU Professor Matthew Richardson, write that adding a 10% commodities allocation to the traditional 60%/40% stock/bond portfolio, improved risk-adjusted returns in all time periods, and in both inflationary and deflationary environments. That's because of the low-correlation of commodities to both stocks and bonds. Hence, we will be working hard, over the next half of 2018, aiming to deliver the positive and low-correlation returns investors expect.

Respectfully yours,

Renee Haugerud

Portfolio Manager, SilverPepper Commodity Strategies Global Macro Fund

The fund may experience negative performance and past performance does not guarantee future results. Diversification does not assure a profit or guarantee against loss.

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 Fund's specific risks include futures/commodities risk, derivatives risk, Subsidiary risk, high-fee risk, tax risk, foreign investment risk and non-diversification risk. Futures contracts may fluctuate significantly and unpredictably over short time periods and commodities are subject to disruptions and distortions, causing loss of principal. All these risks may increase costs, volatility and lower performance. See the prospectus for a complete discussion of investing in this Fund.

As of June 30, 2018, notional exposure of futures and/or options in Natural Gas were 45%; WTI Crude Oil, 11.88%; Brent Crude Oil, 5.98%; and Soybeans, 6.31%, of the SilverPepper Commodity Strategies Global Macro Fund's total net assets. Portfolio holdings are subject to change without notice and are not intended as recommendations. Since Inception time period is 10/31/2013 to 6/30/2018. Past performance is not indicative of future performance.

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[1] Ari Levine, Yao Hua Ooi, Matthew Richardson, and Caroline Sasseville, "Commodites for the Long Run," *Financial Analysts Journal / A Publication of CFA Institute,* Vol. 74, No. 2 (Second Quarter 2018): 64.