SILVERPEPPER MERGER ARBITRAGE FUND

4Q 2014

OUR HEDGE FUND EXPERTS SPEAK THEIR MIND:

UNBROKEN

After years, 15 years to be precise, of specializing in merger-arbitrage investing, we have developed enormous investment discipline. We don't take every shot. You can only grow up to be big fish in a little pond, if you don't bite at everything that wiggles in your face. Because biting a worm baited with a hook, can ruin your year. That's why, at the SilverPepper Merger Arbitrage Fund, we always say, "The merger we avoid, is more important than the merger we actually invest in" — not only because we have a substantial amount of our net worth invested in the merger-arbitrage strategies we manage — but also because it lets us thoughtfully accept, and reject risk, in each deal we encounter.

Deals Galore.

In the second half of 2014, the discipline of our "Dime after Dime, Time after Time" investment process gave us the confidence to avoid merger deals when others were pouring in, and the conviction to invest more when others were running for the door.

2014 was a truly fantastic year for merger-arbitrage deal activity, both within the United States and abroad. Global merger volume reached $3.6 trillion, up 26% from last year, and we saw the return of big-company deals, particularly in health care and telecommunications. This is a sign that corporate boardrooms not only had confidence in their abilities to close deals, but that they also saw the strategic need to acquire companies to grow revenue and compete in today's competitive markets. This uptick in activity is good for us, broadening our opportunity set and allowing us to find the deals that fit our investing style.

Despite the robust activity, our "Dime after Dime, Time after Time" investment style forces us to be picky about the merger deals we invest in. That's because it's important to avoid merger deals that break, or don't close. Our investment strategy is all about earning the "spread," the difference between the price of the company being acquired ***after*** the deal is announced, versus the price to be paid for the company when the merger transaction is completed. If a deal closes as planned, we make a few dimes. When a deal does not close, we could lose a bucket of dimes. The risk and reward are asymmetrical. That's why we keep emphasizing: The deal we avoid, is more important than the deal we actually invest in.

Although 2014 was a robust merger environment, it turned out to be a horrible year for many other merger-arbitrage investors – for two primary reasons. First, there was an unprecedented level of broken deals. Second, a large number of merger arbitrage investors speculated in deals that were not announced. They weren't looking to earn a few dimes from the spread, but instead trying to land some high-flying returns. Biting at every deal and investing in speculative deals creates an entirely different risk profile than the SilverPepper Merger Arbitrage Fund.

SILVERPEPPER MERGER ARBITRAGE FUND MONTHLY RETURNS (%)													SPAIX
	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
						One-Year Return as of 12/31/2014							2.44
						Total Annualized Return Since Inception (10/31/2013)							3.05

The performance quoted is past performance and not indicative of future results. Investment value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance shown is as of the 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. Total annual fund operating expenses of 2.44% gross; after contractual fee waiver and/or expense reimbursement, are capped at 1.99%. 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 November 1, 2024.

Unbroken.

We avoided every single broken transaction in 2014. We are proud of that, because we think it expresses the value of our research and investment strategy. But for others, 2014 was "Arbageddon." Arbageddon started in earnest on August 6, when three very large, speculative deals were abandoned.

The bloodshed started when wireless telecom provider, Sprint, led by the fast-moving Japanese billionaire, Mayoshi Son, decided to drop a potential acquisition of T-Mobile. However, many speculative arbitrageurs expected a bid. They were sorely disappointed, however, when T-Mobile's shares buckled, falling by about 12%. Another potential merger popped when media conglomerate, 21st Century Fox, abruptly gave up bidding on Time Warner, Inc., and caused Time Warner to fall more than 10% when the pursuit ended. Similarly, on the same day, U.S.-based Walgreens decided to go ahead and exercise its option to buy the remaining stake in Swiss-based Boots (they already owned 45%). However, the market also expected them to move their headquarters to Switzerland, but Walgreens decided to stay put in Illinois, wiping away expected value and causing the stock to fall lower than speculative arbitrageurs anticipated. Although the rewards for investing in speculative deals can be great, they are risky because many never materialize into an actual deal. By contrast, more than 90% of announced deals are completed.

From the Frying Pan into the Fire.

Announced deals, however, are not a panacea for what ails other merger arbitrage investors. Even they can cause troubles. The Granddaddy deal of the year – which the SilverPepper Merger Arbitrage Fund stayed out of – was the announced acquisition of Shire PLC by AbbVie. That broken deal created massive pain in the market. AbbVie, an Illinois-based global biopharmaceutical company, broke off its scheduled $50 billion acquisition of Shire PLC, a company registered in Jersey, the British island tax-haven. This merger was dubbed a "tax inversion." Tax inversions are transactions where a U.S.-based company re-incorporates itself in a different, and lower-taxed country, for the purpose of reducing the amount of taxes that the corporation pays. AbbVie's Board, under enormous political pressure, got cold feet as both politicians and the press pounced on them as being "unpatriotic" for trying to actively reduce tax payments to Uncle Sam. Pressure on the company was intense, and the Board finally pulled the plug on the merger with Shire, shortly after U.S. Treasury Secretary Jack Lew announced limitations on the prospective tax benefits of inversions. This announcement significantly reduced the value to AbbVie shareholders of merging with Shire. By some calculations, more than 25% of the expected value of the transaction was to be derived from tax savings.

The AbbVie and Shire merger was easily the largest position among other merger arbitrage investors, and the termination of the deal on October 15 created massive losses, as Shire's stock fell more than 30% when the AbbVie Board confirmed in a press release that it was walking away. However, the deal's collapse created ripples throughout the both the stock market in general, and the entire merger arbitrage market in particular, causing spreads to widen across a broad spectrum of merger-arbitrage transactions.

Not all Tax Inversions are created Equal.

Tax inversions quickly became poison. Without conviction in our research, it would have been easy to be shaken out of other tax inversion deals, realizing our paper losses. Our research and process kept us out of AbbVie, but it also led us to maintain our commitment to the merger between Covidien and Medtronic.

On the surface, this was another poisoned healthcare-sector tax-inversion deal. But, it had a number of crucial differences in strategic rationale, and in management's transparency and commitment to the transaction. Unlike AbbVie, the tax benefits of the transaction were far lower – only about 2% of the value. Instead, the vast majority of the transaction was embedded in the strategic value of the combined companies. The anticipated benefits of the merger were that it gave both companies a far broader and stronger portfolio of medical products to sell, and made it far easier for Medtronic to deliver its products globally, especially in emerging markets. However, despite this fact, when AbbVie broke, the Covidien and Medtronic spread widened too.

We saw an opportunity as the spread sharply widened from $3.50 to $9.00. Indeed, after some calls to confirm our research, we saw an improved risk and reward proposition. The spread, or our reward, got two-and-a-half times larger, but our research indicated the risk was only modestly higher. Therefore, we grew our position in the merger to take advantage of the improved risk and reward tradeoff. Even though the tax benefits to Medtronic were relatively small, the changes that the U.S. Treasury Department made to deter tax inversions caused a financing problem for Medtronic, making it far more difficult to use its overseas cash to fund the purchase. However, Medtronic's management quickly launched an initiative to eventually raise $17 billion, through a debt offering to fund the acquisition. This strong public signal by management, along with additional research, gave us good comfort that Medtronic was a committed buyer. Shareholders of both companies approved the merger in early January and we expect the merger to close at month's end.

New year, new mergers.

It was amidst these conditions that we managed. While we had a bit more volatility than normal, we are pleased that our process of scouring the landscape for the right deals served us well. We are committed to only investing in announced deals of high-quality companies, with good managements, who have assured sources of financing to complete the deals, along with strong strategic rationales for the deal (such as complementary product lines). And our ability to garner insights through good contacts with management, suppliers and customers plays a critical role in helping us avoid the problems that plagued so many other Merger Arbitrageurs.

It's hard to imagine 2015 being more eventful than last year, but we continue to believe the market environment will be favorable for merger activity. The energy sector is experiencing a great deal of upheaval with the dramatic fall in the price of oil and may be a fertile area for us. We would not be surprised to see energy companies with good balance sheets do a land-grab, or see mid-size companies seek partners to bring scale and costs reductions to their operations. Healthcare and technology are always good for a few deals, and rest assured – tax inversions are not dead yet.

Our firm is very proud of the strong risk-adjusted returns we've delivered to all our investors. We have accomplished this by investing only in announced mergers, which serves the purpose of isolating us from the broad risks of the market, and exposing us instead to the risk and returns embedded in each specific merger. We invest this way because it produces low volatility – about 3.5% annualized volatility, similar to that of medium-term bond index – and low correlation with the stock and bond markets. It's a strategy that should zig when the market zags. That's our investment discipline, and we hope it is consistent with the investment expectations of our investors in the SilverPepper Merger Arbitrage Fund.

Thank you for entrusting us with your hard-earned assets.

Respectfully yours,

Jeff O'Brien
Portfolio Manager
SilverPepper Merger Arbitrage Fund

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 these Funds. 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 either 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. Please see the prospectus for a complete discussion of the risk of investing in these Funds. To obtain a prospectus, please call 855-554-5540 or visit silverpepperfunds.com. The prospectus should be read carefully before investing.

Distributed by IMST Distributors, LLC.