SILVERPEPPER MERGER ARBITRAGE FUND

4Q 2017

OUR HEDGE FUND EXPERTS SPEAK THEIR MINDS:

TAKE SOME STOCK MARKET RISK OFF THE TABLE

2017 — Pretty Nice Accolades.

We picked up The Lipper Fund Award. Yes, the SilverPepper Merger Arbitrage Fund (SPAIX) was named the "Best Event Driven Fund" in 2017, based on our strong, risk-adjusted performance, over the past three years ending November 30, 2016 out all 37 event-driven funds. We also received a 5-Star Overall Morningstar Rating, based on risk-adjusted performance out of 118 funds in "Market Neutral" Category, ending December 31, 2017.

But if you're like most of us at year's end, looking at all your investments, and their performance, you've got just one thing to say:

Do I Have More Dimes?

Okay, so here you go. Not only did we not lose any of your money, we earned you 1.8% in 2017. Boom. Dime After Dime, Time After Time.

Now before you fly off the handle, and say, "But the S&P 500 Index earned a whopping 21.8%! That leaves your 1.8% gain in the dust!" — did you stop and figure out what sort of risk you took to get there?

Because over the last three years, as measured by standard deviation of return, the risk of the S&P 500 is about 5 times higher than that of the SilverPepper Merger Arbitrage Fund. That's why the real investment pros often look at risk-adjusted return, as the real measure of whether someone is being a good steward of your money.

What does risk-adjusted return mean? Well, generally, it measures the return a fund earns against the ups and downs that came with those returns. So if we compare the SilverPepper Merger Arbitrage Fund against the S&P 500, on the most common measure of risk-adjusted return — the Sharpe ratio — it turns out that over the trailing three years, our Fund's Sharpe ratio was 2.21, or more than two times better than the S&P 500 in producing returns per unit of risk.

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.

Now, merger arbitrage is not without any risk. While it has extremely low "market risk," it does have "event risk." That's the risk that the merger won't go through as planned. Even though historically, about 95% of mergers go through as planned (and we like those odds), something could put the kibosh on the deal.[1] Maybe the Government sees anti-trust issues. Maybe the company being acquired doesn't make the gross revenues it promised in the merger contract. However it might happen, "event risk" — the risk of a deal break — does exist. It's real. Hence, expert managers with a healthy respect for deal breaks are critical. That's where I come in.

Avoiding Deal Breaks Is The Best Medicine.

Ever since I started managing in the merger arbitrage space 20 years ago, I've avoided deal breaks like the Ebola virus. The best reason to avoid deal breaks is rooted in the basic risk/return characteristics of Merger Arbitrage investing. One eternal reality of Merger Arbitrage is that when a typical deal goes through as planned, you might make 2%-3%, give or take. But when a deal breaks, you could easily lose 20%! In fancy investment lingo, that's called an asymmetric payoff. What it means is, you want to be especially careful to avoid deals that go bad, because it's a long, hard slog to earn 2.5% gains around 9 times, to make up for losing 20%, on a single deal. I would rather work hard to find deals that won't go bad.

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

One-Year Return as of 12/31/2017	1.76
Total Annualized Return Since Inception, (10/31/2013)	4.31

Total annual fund operating expenses for the Institutional class shares are 4.80% gross, 4.57% net; Advisor class Shares 4.98% gross, 4.82% net, 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 except for certain excluded expenses as outlined in the prospectus, total fund-operating expenses do not exceed 1.99% for the Institutional share class, and 2.24% for the Advisor share class This agreement is in effect until October 31, 2027, 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.

Over recent years, historically speaking, about 5% of merger deals in the whole merger universe have gone bad. That means, in a portfolio of our size, if we simply invested in every single merger, no matter what (which we don't), we should experience a deal break about once a year. But fortunately for our investors, **I've never had a deal break in the SilverPepper Merger Arbitrage Fund.** And I haven't had a deal break in any of my portfolios in years.

My clients have become so spoiled by the lack of deal breaks, that now they demand it! In fact, Financial Advisors, it may help you to help your clients best, in the way they like to be helped most, by knowing the following: Daniel Kahneman won the Nobel Prize in Economics for the psychological discovery that **investors really hate to lose money!** More precisely, they hate losing money, over two times more than they love making money!

How do I help you Financial Advisors out there, to help your clients? I minimize the chance that the Fund will lose money, by avoiding deal breaks. How do I avoid deal breaks? Simple.

I'm very, very picky about which deals we invest in.

Picky, Picky, Picky.

Being extra picky is the key to our Five-Star-Rated Fund's success. It especially helps to keep our risk of losing money low. The Fund's overall low risk is one of the best results of being such picky investors. I do this primarily by verifying that the deals have solid financing, sound business logic, and few regulatory or political issues.

Would you like an example of where my pickiness paid off for you? Among the biggest mega-mergers at play in 2017 was AT&T's offer to buy Time Warner for $109 billion in cash and stock.

Now it didn't take specialized knowledge to see that this deal had immense political headwinds. Anyone who watches cable news knows CNN, owned by Time Warner, never misses a day to have their resident panel of pundits declare Donald Trump unable to win, insane, racist, or in collusion with Russia. And Trump punches back, alternately declaring CNN to be either "Fake News" or "Very Fake News." Bad blood indeed. Trump even said during the 2016 election "AT&T is buying Time Warner, and thus CNN," and it was "a deal we will not approve in my administration." For that reason, we steered clear.

Our pickiness paid off in early November, 2017. The antitrust division of the Justice Department expressed concerns about the anti-competitive effects of AT&T's proposed purchase of Time Warner, and so both stock prices began to react. From November 1st to November 9th, Time Warner's stock lost more than 11%, and AT&T's increased around 1%. So the typical merger arbitrage position for such a deal — long, Time Warner; short, AT&T — was a double loser. **We want to avoid a double loser!**

Not All Roses.

Although sometimes I have stretches where I wonder if I'm too picky. In 2017, there was a 16% drop in U.S. merger activity, as measured by the total market value of deals. One explanation for the slow deal market in the U.S. is that CEOs were waiting for key policy questions to be resolved — like trade policy, tax policy, and regulatory policy. I too felt there were too many uncertainties, so I held a slug of cash on the sidelines, waiting for deals that met my requirements. As a result, through the first ten months of 2017, our Fund lagged its five closest peers in the merger arbitrage world by an average of 207 basis points.

Yet in the last two months of the year, after avoiding the losses on the AT&T deal, our Fund made up 122 basis points of that shortfall. That helped us close the gap, relative to our merger arbitrage peers. Although we finished the year 82 basis points under our average merger fund peer, and 61 basis points below the broader group of funds in Morningstar's Market Neutral category, my faith in the value of my pickiness was reaffirmed. We had taken risk off the table — having a higher Sharpe ratio than all of our merger-arbitrage rivals — while still earning 1.8%.

Other Close Calls – for the Better.

There's another new complexity in the merger arbitrage business. It's all the curveballs thrown by "activist investors." Here's how we handled two such cases.

EQT / Rice Energy. In late June, EQT announced it was buying Rice Energy for cash and stock. We bought into the deal, because it made good strategic sense for the buyer. EQT will obtain Rice's valuable pipeline assets, and become the largest natural gas producer in the U.S.

But in early July, activist investors, at JANA Partners, announced they had purchased a 5% stake in EQT. Then, out of left field, JANA began agitating for EQT to give up the Rice Energy merger, and instead split off EQT's pipeline and production assets. This caused the price of Rice Energy stock to fall approximately 4%, and EQT's stock to rise a comparable amount. That created losses on both sides of our trade!

Having invested in merger deals for 20 years, we have a process that kicks in when deals turn sideways. So we went to work. After a review of contracts and a flurry of calls and meetings with analysts, the companies' managements, and other investors, my team and I quickly determined that JANA was unlikely to scuttle the deal. So despite the short-term losses, I stuck with our process, I stuck with the deal, and it later closed on the agreed terms. Whew. Win one.

Ensco / Atwood. Here's the craziest "activist investor" story. During the second-half of 2017, Ensco, a provider of offshore drilling services, agreed to buy Atwood Oceanics and its offshore drilling rigs. Activists at Arrowgrass Capital felt that Ensco was wildly over-paying. But Arrowgrass Capital didn't have a meaningful number of shares to vote in the deal, as the majority of their position was comprised of Ensco bonds!

But they did raise a stink. Moreover, the situation was complicated even further by suspicions that Arrowgrass Capital had connections to the Russian mafia! Needless to say, I couldn't imagine any party to the deal wanting to join forces or even be seen working with these Arrowgrass folks. And so I was inclined to stick with the Ensco / Atwood deal.

However, a further complication arose. A couple of companies domiciled in Norway, Borr Drilling and Norges Bank, announced that they had acquired more than 10% of Atwood's stock. This raised speculation that Borr Drilling might make a bid for Atwood. In which case, we would likely have made good money on our long Atwood position. Over time, the spread came down from 71 cents to 19 cents, signaling deal completion was near.

However, I also had to consider what would happen if Ensco was shut out of the deal. Its stock would likely rise, leaving our short position as a potential significant loss. Now I began to foresee numerous possible ways we could lose money on this trade. Ensco's shareholders could vote it down. Or Borr Drilling could offer to buy Atwood. What to do?

Sometimes when the deal starts to look fishy, you have to take profits — and get out.

So we made the decision to leave the last 19 cents of the spread on the table, and sell our position. Take some risk off the table. You never lose money by taking a profit. Whew. Win two.

What Santa Brought.

Things could get sweeter for Merger Arbitrage investors, thanks to one big present Santa left under the tree: The new Republican tax cuts.

Tax cuts are poised to be a huge catalyst for more merger deals in 2018. The more deals, the merrier. Because the new tax law passed, we now know what's in it. In 2018, there'll be a dramatic decrease in corporate tax rates, and much more favorable treatment of repatriated foreign profits. That should supply robust economic stimulus, and a consequent surge in mergers and acquisitions.

During most of 2017, CEOs couldn't be sure tax cuts would pass, or how the law might impact mergers. That's why merger volume was down nearly 16% in 2017. But from all the chatter I hear, there is pent-up demand for mergers. The Deloitte M&A Trends survey, of more than 1,000 executives at corporations and private equity firms, reports that 65 percent of them said their cash reserves have increased over the last two years (up from 58 percent). And that the primary intended use of that cash is — for M&A deals.

Add all this cash to successful tax reform, solid economic growth, and reduced regulatory burdens, and we could easily see a real groundswell of merger deals. Goldman Sachs forecasts M&A spending to climb by 6% in 2018. I think it could be higher.

In the last half of 2017, given the lack of tax certainty, the reduction in announced mergers, and the concurrent reduction in merger spreads, I took risk off the table. I just didn't think the skimpy spreads were worth the asymmetric risk. Yet, deal activity picked up in the last few weeks of 2017 and I added $34 million in new deals, equal to about half the assets of the Fund. Those investments brought the number of deals in the portfolio to 26, and left the Fund fully invested in merger arbitrage deals.

And even though I'll continue to be picky, the robust economic climate and the favorable repatriation tax rate should create plentiful opportunities throughout 2018 for the SilverPepper Merger Arbitrage Fund to continue to march along, "Dime after Dime, Time after Time."

With respect and gratitude, for entrusting us with your hard-earned dollars,

Steve Gerbel
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 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.

About the Lipper Fund Awards

The Thomson Reuters Lipper Fund Awards, granted annually, highlight funds that have excelled in delivering consistently strong risk-adjusted performance relative to their peers. The Lipper Fund Awards are based on the Lipper Ratings for Consistent Return, which is a risk-adjusted performance measure calculated over 36, 60 and 120-month periods. The highest 20% of funds in each category are named Lipper Leaders for Consistent Return and receive a score of 5, the next 20% receive a score of 4, the middle 20% are scored 3, the next 20% are scored 2 and the lowest 20% are scored 1. The highest Lipper Leader for Consistent Return in each category wins the Lipper Fund Award. Lipper Leader ratings change monthly. For more information, see www.lipperfundawards.com. Although Thomson Reuters Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. The SilverPepper Merger Arbitrage Fund won the 2017 Lipper Fund Award for Best Alternative Event Driven Fund based on consistent risk-adjusted return. For Lipper Best Individual Funds, the calculation periods extend over 36, 60 and 120 months. The highest Lipper Leader for Consistent Return (Effective Return) value within each eligible classification determines the fund classification winner over 3, 5 or 10 years as of 11/30/16. 37 Event-Driven Funds were eligible for the award for the three-year period ended 11/30/16.

More ➤

About the Morningstar Rating

The Morningstar Rating for funds, or "star rating," is calculated for all mutual funds with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a mutual fund is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.) The SilverPepper Merger Arbitrage Fund was rated against the following number of funds in the "Market Neutral" category over the following time periods: 118 funds in the category during the prior 3-year period ending 12/31/2017. The Morningstar Rating is for both the Institutional (SPAIX) and Advisor (SPABX) class shares. Past performance is no guarantee of future results. Past performance is no guarantee of future results.

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[1] **"Still Collecting Pennies in Front of a Bulldozer," Seeking Alpha, Asif Suria, Inside Arbitrage, May 5, 2017. https://seekingalpha.com/article/4005234-collecting-pennies-front-bulldozer-likely-run**