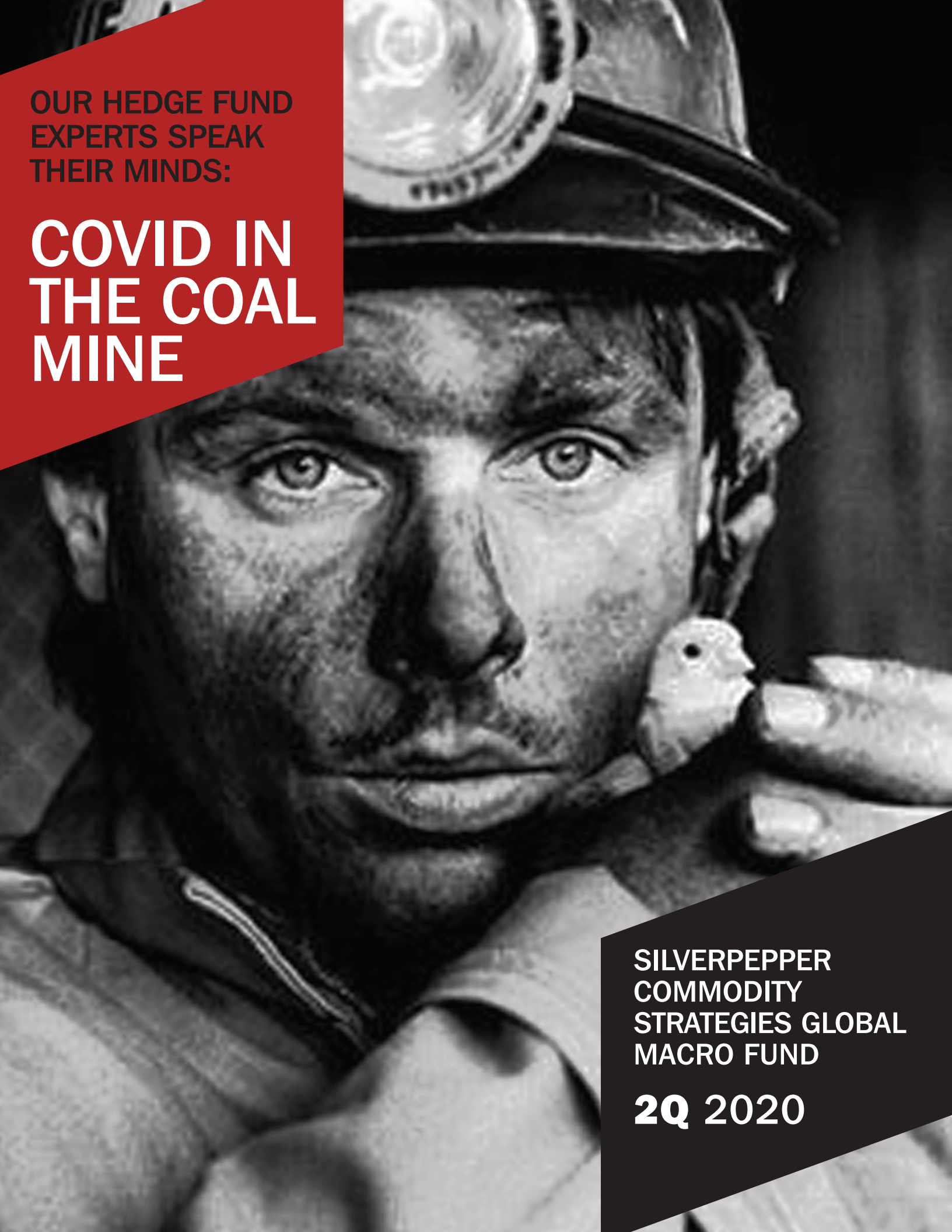
OUR HEDGE FUND EXPERTS SPEAK THEIR MINDS:

COVID IN THE COAL MINE



SILVERPEPPER COMMODITY STRATEGIES GLOBAL MACRO FUND

2Q 2020

COVID IN THE COAL MINE

In 20th Century England, the death of a canary was the first sign that carbon monoxide had infiltrated the mine. When the canary keeled over, it meant that the miners should scramble for high ground. In retrospect, it's hard to imagine that flu-like symptoms from a virus emanating from either Bat Soup, Kung Pao Pangolin, or a P4-level BioLab, in Wuhan, China, would be our "COVID in the Coal Mine"! The lockdown in Wuhan was the first of many cascading reactions across the globe, that simply sucked the oxygen out of the global economy.

Pre-COVID, the global economy was humming. As we entered 2020, we were optimistic that a long-stalled rebound in commodity markets would commence with the signing of President Trump's Phase One Trade Deal. Although we expressed reservations about the timing of the purchases, as well as China's commitment to following through on its contractual obligations, the Deal was clearly a positive sign for commodity markets. Phase One called for China to grow its purchases of agricultural commodities from $24 billion in 2017 to $42 billion in 2020, increasing to a mammoth $58 billion in 2021. In addition, China also signed on to a $50 billion dollar increase in U.S. energy products, like oil and natural gas. Those are all big, optimistic numbers.

Just weeks into the New Year, however, we began to hear chirps of "COVID" or "Corona" emanating from China. Governments across the globe, from California to Cape Town, started searching for high ground, implementing stay-at-home orders, bifurcating workers into peculiar buckets of "essential" versus "non-essential," as well as imposing shutdowns on broad swaths of their economies. Financial markets reacted badly. From mid-February to mid-March, the S&P 500 fell about 34%, and experienced a 12% drop on March 16th alone — its third largest single-day decline since 1923. And, in desperation for a pocket of fresh air, investors rushed to 10-year U.S. Treasury Bonds, seemingly relieved to get a meager 0.4% yield.

Commodity markets fell in concert with stock and bond markets. The Bloomberg Commodity Total Return Index (BCOM) was down -19.40% for the first half of the year. In contrast, the SilverPepper Commodity Strategies Global Macro Fund (SPCIX) returned -12.72%. While this was a huge drop, **we outperformed the Index by 668 basis points.** Although the outperformance was significant, we can't lose sight of the fact that we need to generate positive returns for our investors. Yet, by limiting losses, we make getting back to positive territory much more likely. And, our risk control has been vital to our long-term outperformance, as the Fund continues to be the #1 Performing Fund out of 90 funds, based on total return, in its Morningstar Category, "Commodities Broad Basket," since its inception on October 31, 2013 — with about ½ the risk of the Index.

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	1.99	0.81	0.80	1.25	-0.67	0.86	-2.12
2018	2.35	-3.29	-1.13	1.72	2.25	-3.74	-1.83	-1.28	0.35	-1.65	2.03	-4.11	-8.30
2019	5.41	0.98	-0.85	-1.59	-1.61	1.39	-0.99	-2.38	0.90	1.53	-2.13	3.94	4.34
2020	-6.79	-2.91	-5.46	-0.72	2.03	0.71							-12.72

One-Year Return as of 6/30/2020	-12.10
Five-Year Annualized Return as of 6/30/2020	-3.95
Total Annualized Return Since Inception, (11/1/2013)	-4.28

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 the most recent month-end performance.

Total, gross and net annual fund operating expenses are 2.02%/2.00% for Institutional, and 2.01/2.01% for the Advisor class 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, 2029. Inception dates for both share classes is October 31, 2013. Performance and risk measures greater than one year are annualized.

Risk Control Pays in Crude

Entering the year, we felt oil prices were range-bound. West Texas Intermediate Crude (WTI) entered the year trading at $61 per barrel, and our analysis led us to think prices would fluctuate between $55 and $65 per barrel. Having managed commodity assets for more than 30 years, I remember other pandemics, such as SARS. So, when we first heard of COVID, we began to reduce our overall exposure to energy commodities, particularly to crude oil. By January 23rd, as chirps coming out of China about COVID grew louder, and with oil at $55, the low end of our range, we prepped for a break in oil prices to the downside. We reduced our crude oil exposure to 7.5% of the portfolio, less than half of the Index weight. In addition, as volatility began to increase, we made a concerted decision to use options, to give us beneficial exposure, regardless of where the volatility took us. Therefore, by late February, with oil trading at about $51 per barrel, we bought puts that would get us to a net short position in WTI crude, if prices fell to $49 per barrel.

As alarm bells increased, and as President Trump stopped air carriers flying in from China, concerns started to grow quickly about the sharp drop in demand that was being forecasted. The Organization of Petroleum Exporting Countries, OPEC, held its 178th meeting in Vienna, Austria, to coordinate production cuts, in order to prop up the price of oil. Although the OPEC countries agreed to a reduction in supply of 500,000 barrels, to be shared pro-rata across the OPEC participants, Russia (known as an OPEC+ member) wanted no part of it. They viewed production cuts as a subsidy for oil producers in the United States. Russia wanted the U.S. to feel the pain of its own production cuts. Russia's decision caused a catfight with Saudi Arabia, who on March 9th announced they would not decrease, but actually increase oil production, from 9.7 million to 13 million barrels per day. This hostile action cratered oil markets. Prices fell 30%, to about $30 a barrel. Thankfully, our option positions, which are a part of our active management and our proactive risk controls, allowed us to avoid the bulk of the carnage.

With the Saudis increasing production, and oil consumption screeching to a halt, WTI began descending further, trading below its cost of production — which we peg around $40 per barrel. So, we sold some puts at $24. It was a way to earn income, by collecting the underwriting premium. And if oil prices fell to $24, we would be happy to increase our position in WTI, at a price, well below the cost of production. As we anticipated, prices fell and we had crude "put" to us.

This was all well and good, but oil future contracts represent a physical commodity, not simply a paper asset. With crude demand plummeting in April, storage tanks hit capacity. Physical buyers, like refineries (even at these cheap prices), couldn't buy more, because they had no place to put it — there was simply "no room at the inn." Two days before the April settlement date, the markets went haywire, with oil trading all the way down to NEGATIVE $40 per barrel. There just weren't any buyers. We were able to roll forward most of the crude in advance of the meltdown, but even we had to sell some crude futures contracts at negative prices to avoid physical delivery. That cost the Fund about 80 basis points in losses. And, the ongoing storage concerns continued to make trading difficult going forward, because we could not be certain, that come the next physical settlement date in May, that storage markets wouldn't freeze up again.

Energy as a sector, including gasoline, heating oil, natural gas and diesel fuel contributed about 60% of the Fund's total losses, with crude oil contributing about 32% of the Fund's total losses for the quarter. Yet, our energy position was also the biggest contributor to our outperformance versus the Fund's Index, adding about 500 basis points of outperformance year-to-date. Going into the second half of 2020, we are underweight crude, holding a 6% position. We think we are topping, in the current range of $41 and $45, and that a second wave of COVID could keep demand for WTI crude weak. In contrast, we anticipate Brent Crude commanding a higher premium to WTI, as Asia's and Europe's testing results, and contact tracing, will help build confidence and support crude demand in those regions. We expect to build that position going forward.

Gold Was Precious

Ten years ago, in the midst of the mortgage meltdown that reared its head in 2007, the Federal Reserve took unprecedented action to keep markets functioning. The Federal Reserve used QE 1, QE 2, and QE 3, as a kind of "WD-40" — a lubricant to keep the wheels of finance spinning. "Quantitative Easing" meant the Federal Reserve purchased the debt securities held by commercial banks, within their reserve accounts at the Central Bank. The banks' sale of debt gave them cash, which they could then lend to borrowers, to keep money flowing throughout the financial system. The Fed's actions were akin to printing money. And the massive size of these Quantitative Easing efforts made the world fearful of impending inflation, which can destroy savers, and save spenders.

The governmental response to COVID is a doubling-down on stimulus. The virus sparked additional provocative monetary actions from the Fed, as well as fiscal action from the U.S. government, which doled out money through new legislative programs. Not only did the Fed push short-term interest rates to near zero, but Congress added approximately $4 trillion in COVID stimulus. The Paycheck Protection Program (PPP) paid employers to keep payrolls full, and the CARES Act sent $1,200 rebates to single folks, and $2,400 to couples. So, consider this: pre-2008, money supply (M2) was $6 trillion. Now the money supply stands at $18 trillion! If, as Milton Friedman proclaimed, "inflation is a monetary phenomenon," then it certainly makes sense to be on guard about future inflation. We are.

In 1971, the U.S. discarded the Gold Standard in favor of a fiat currency. Yet, in the first half of 2020, the Fund embraced the Gold Standard, so to speak, by making gold the largest position in the Fund. As of June 30, gold comprised 18% of the Fund's assets. The position got as large as 32%, but we started to trim the position, as gold rose above $1,760 per ounce. As gold has continued to climb north of $1,800, we have established a core long position. Yet, we also recognize that in the first half of 2020, nearly $40 billion found its way into gold-backed ETFs. This is a pretty sizable, speculative inflow. So we need to be on guard for any quick capitulation selling, or an unexpected rebound in the value of the U.S. dollar. For that reason, we also bought put options, at strike prices of $1,760 and below, intended to protect you against a sudden change in sentiment.

Gold was the most profitable position in the portfolio, as gold prices climbed 18% in the first half of 2020. Despite the upward move, we continue to like inflation-hedging assets against the dollar, like gold and silver (6.5% of the portfolio). We also have exposure to other currencies, such as the Japanese Yen, the Euro, and the Aussie Dollar, all of which should benefit if the dollar weakens.

Where Did the Corn Crop Go?

Every day, I have been in the fields in southeast Minnesota, here at the Galtere Research & Development Center, tending to our corn and soybean fields. During the first half of 2020, we have been neutral to bearish on corn, because conditions have been perfect ever since planting began in April. Rain was timely, with the crop looking

really good going into the end of June. And, with farmers' planting intentions tallying up to 97 million acres, we thought corn prices could keep going lower — even below our estimate of the cost of production, around $3.50 per bushel. As a result, our corn position was a mere 2% of the Fund's assets, 60% less than Index's weight, as we closed out the quarter.

But, now, our opinion is turning. We think we are close to the lows on corn. Our reversal of opinion stems from two factors. First, we had some very hot weather leading up to tasseling and pollination. Second, 5 million acres of corn have disappeared. That's right. On June 30, the United States Department of Agriculture (USDA) estimated that only 92 million acres had been planted, which is 5 million acres less than previously estimated. This 5 million acre reduction from farmers' intentions, is the largest we have seen since 1983. So, where did the corn crop go?

My staff and I have been speaking directly with producers here, and in the surrounding fields of Wisconsin and Illinois. We've been meeting with co-ops. They all affirm the loss of acreage. Normally, if corn acreage was down, soybean acreage would be up. Because of COVID, uncertainty on China's purchases, and the expectation that corn-based ethanol demand would sharply decline, it looks like planters simply left 5-million acres fallow. Given this sharp reduction in plantings, we think current prices are too low, especially given the amount of short positions that speculative traders have on the books. Even if we don't get any yield degradations from bad weather, we are forecasting a rally, up to the government subsidy prices of $3.77-$3.88 per bushel. And, if weather does stress the crop, we would anticipate a rally into the $4 to $4.20 range per bushel. This is a dynamic market, given the missing 5 million acres. Therefore, we are building a long corn position, but also overlaying it with positively convex options, to increase our returns exponentially in a rally, and reduce our exposure (indeed, get outright short) on a major break to the downside. Active monitoring will be key.

We have been working diligently to have the Fund's portfolio reflect the short-term volatility and the long-term opportunities in commodities. We have recently increased the Fund's overall exposure to 113%, up from the 70% exposure we had in March, the most oxygen-deprived moment in the market. In light of the changing circumstances, we expect to be active managers, pro-actively managing risk. We will look for rapidly changing shifts in the supply and demand of commodities, which can feed, power, clothe and provide shelter for the growing world. Commodities are as essential as the oxygen the canary breathes.

Thank you for your continued investment in the SilverPepper Commodity Strategies Global Marco Fund.

Respectfully yours,

Renee Haugerud

Portfolio Manager

SilverPepper Commodity Strategies Global Macro 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.

Performance Rankings: Morningstar rankings are assigned based on total return. The ranking includes all funds within the Morningstar category "Commodities Broad Basket." SilverPepper Commodity Strategies Global Macro Fund Share Institutional Share Class (SPCIX) based on total returns was ranked 10 out of 97 funds for the 5-year period ending 6/30/2020 and 14 out of 107 funds for the trailing 1-year period ending 6/30/2020. Source: Morningstar Direct. ***Past performance is not indicative of future performance.***

Since Inception time period is 10/31/2013 to 06/30/2020. Includes all funds within Morningstar category, "Commodities Broad Basket," as of 10/31/2013. The SilverPepper Commodity Strategies Global Macro Fund Institutional Share class (SPCIX) was 1 out of 90 funds for the since inception period based on total returns.

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.

Definition: A basis point is equal to 1/100th of 1 percent, such that 100 basis points are equal to 1 percentage point.

As of June 30, 2020, notional exposure of futures and/or options in WTI Crude Oil, 5.4%; Brent Crude Oil, .50%; Gold, 18.04% and Corn, 2.04% 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.

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