OUR HEDGE FUND EXPERTS SPEAK THEIR MINDS:

BIG FALL BOUNCE BACK

SILVERPEPPER MERGER ARBITRAGE FUND

2Q 2020

BIG FALL BOUNCE BACK

The news was extreme in the first half of 2020. Over six months, we had a string of unprecedented worsts: the political crisis of an impeachment, the plague of a global pandemic, a record-breaking economic recession, and riots in American streets.

Market volatility followed social and economic volatility. The S&P 500 plunged about 34% from its peak in mid-February to its bottom in mid-March, as the economy started to shut down due to the pandemic. Long-term treasury bonds soared 17% from the beginning of the year through March 9th. Practically overnight, the unemployment rate rose to 14.7%, the highest level ever calculated. And most importantly for our Fund, mergers were cancelled, and new deal activity shut down.

On March 16th, the worsts came home to roost for the SilverPepper Merger Arbitrage Fund. On that Monday, market participants were spooked by the Fed's extreme emergency response to the looming economic shutdown. The S&P 500 lost 12% that day, the third worst day since it was founded in 1923. And the Merger Abitrage Fund lost 10.7%, by far the worst day in its history, as spreads widened dramatically on most every merger deal in the portfolio.

SilverPepper

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
2018	-0.18	0.45	-0.36	0.00	0.45	0.18	0.72	0.44	-1.15	0.09	0.63	-0.81	0.44
2019	1.28	0.00	0.90	-0.36	0.09	-0.09	1.08	0.71	-0.18	0.97	-0.35	1.11	5.26
2020	-0.18	-0.36	-7.76	3.13	-1.80	0.00							-7.09

One-Year Return as of 6/30/2020	-3.96
Five-Year Annualized Return as of 6/30/2020	1.91
Total Annualized Return Since Inception, (11/1/2013)	2.40

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 most recent month-end performance.

Total gross/net annual fund annual operating expenses are 2.84%/2.81% for Institutional and 3.00%/2.94% for the Advisor 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.

The carnage across announced merger deals was widespread during the period. To illustrate: IberiaBank lost 38.2% from March 16th to the 18th; ForeScout Technologies lost 25.2%; Front Yard Residential lost 23.4%; Tallgrass Energy lost 20%; Taubman Centers lost 15.5%; Tiffany & Co. lost 13% — and the list goes on. Over those two days, the Fund lost 12%, which was the lion's share of its 13.4% drawdown over the period. It was four times worse than the previous worst drawdown in the Fund's history, which occurred in late 2014.

Amazingly, the stock market bests started soon after. March 24th was the starting point for a rally that has proven to be one of the best in market history. Driven by optimism that the economic recession would be V-shaped, and that the scientific community would be able to defeat the virus, the S&P 500 rebounded 39% through the end of June, and even more since then. The Merger Arbitrage Fund rebounded as well, up 7.3% over this period. As you can see from the table above, after its worst month in March, April was the best month in its history. It just shows you the risk of selling out when times are bad, rather than exercising the patience of a buy-and-hold investor, with a long-term strategy.

However, the damage to the merger market was more lasting. Some deals were irretrievably broken as the economic and medical crisis played out, never to be repaired. For example, the Front Yard Residential (RESI) deal broke on May 4, 2020. Front Yard rents single family homes across the country, and had agreed in February to be bought for $12.50 per share by Amherst Residential, a firm in the same business. Amherst walked away soon after, with little explanation. Their excuse? That during this period of time, the "integration of operations was too operationally difficult." What does that mean? **Did they ever think operational integration would be easy? Come on.**

Even more fascinating was a company payoff that largely left shareholders out in the cold. Although RESI received a $25 million breakup fee, and Amherst gave them a $20 million loan, they also bought $55 million of newly issued shares at $12.50 (the contractual merger price), instead of buying them from shareholders that had voted for the deal. Despite Amherst buying newly issued shares at $12.50, these actions weren't enough to save RESI's stock, which fell as low as $6.05 in the aftermath of the cancellation. We got out, at an average price of $8.12, and suffered about a 2% portfolio loss on the breach. We believe that something is rotten at the heart of this failed transaction. And we are not surprised that legal action is underway, to uncover and rectify any malfeasance.

Not everything went bad, though. Several other deals in the portfolio closed after delay, renegotiation, or simply a lot of consternation. Blackstone Infrastructure Fund's (BIF) acquisition of Tallgrass Energy (TGE) illustrated the challenging environment. That deal suffered double jeopardy. As noted, the economic shutdown in March created challenges for all mergers. But this one was in the oil and gas sector, which was pummeled by

massive price declines in March, as the Saudis opened the spigots, and Russia followed suit. Blackstone had agreed to pay $22.45 in cash for TGE shares, in December 2019. They were likely confident in their valuation, because at the time, they already owned 44% of Tallgrass. Nevertheless, there was widespread speculation that Blackstone would try to abandon the deal, or renegotiate the price. At the low point in mid-March, Tallgrass shares traded down to $10.93, 51% below the agreed-upon merger price. We stayed in the deal for several reasons. First, we were convinced that the merger contract was a tight one. And second, we believed that Blackstone would be loath to walk away from the merger, because it was one of the first buyouts by their infrastructure fund, and they would be substantially damaging their reputation, and their existing 44% stake. On April 17th, Blackstone finally completed the transaction, and the Fund recouped all its losses, and made a slight gain.

As the entire merger market fell apart, we pared the most damaged deals from the portfolio, based on our paramount goal of avoiding further losses. As of June 30, the Fund's holdings had been pared down to 10 deals in which we had confidence, which is well below the 20 to 30 merger deals we typically own at one time. But these remaining deals are emblematic of the types of deals we hunt for. First, they're strategic acquisitions. We focus on strategic acquisitions, because there are compelling business reasons that keep the deal(s) on track if things get dicey, such as gaining new markets, buying a critical supplier, or getting economies of scale. In contrast, the incentives are typically not as strong if a deal's motivation is financial, as is the case with many leveraged buyouts, or private-equity transactions. Also, we lean toward acquisitions that are well financed and target small companies, because antitrust risk is typically less and returns are often higher.

We're holding tight to our conservative deal-selection principles, because the damage to the merger and acquisition business may persist for a while. Most corporate leaders are too busy figuring out how to survive in the post-pandemic world, to contemplate how to grow with a risky merger. Deal activity has dried up. For example, in June 2020, deal activity was down 70% from the previous year. As a result, there has been little opportunity to reload the Fund and make up the losses.

Previously, that's how it played out. In the past few occasions when the Fund lost some money on a troubled deal — maybe a delay, or an attempted renegotiation — we've always been able to invest in new deals, and regenerate

positive returns, which enabled the Fund to finish every prior year in the black. And, importantly, those returns in those years have been largely independent of the stock and bond markets.

But this year has been different. We tracked the stock market down, as both the economy and the merger market went south simultaneously. They moved together, because it wasn't just a deal or two that went bad when the market plunged — it was the entire merger and acquisition market that cratered. In the investment world, this is called a "systematic shock" — it hits everything hard. And because it was systematic, there was no place to hide.

There was no place for the other merger-arbitrage specialty funds to hide either, as they all performed poorly for the period. In fact, since the plunge on March 16th, our Fund is the leader among those specializing in merger arbitrage. We're up 11.2%, from March 17th through the end of June.

Compared to the other handful of specialty Funds which have been around as long as ours — we have similar long-term records. In the nearly seven years since our Fund's inception, we've returned 2.4% per year. The group average is 2.5%. What's more, our results dwarf the results of the Funds in the broader Morningstar "Market Neutral" category, which have only managed a 0.22% gain per year.

We've got plenty of dry powder in the Fund. So we're prepared to take full advantage, when the merger market comes back. We believe you should consider the same. After all, the S&P 500 Index has been flying upwards for years, since the bottom, back in March 2009 — up an average of 16.7% per year! But, as they say, "Past performance is no guarantee of future results."

If you're one of the many investors now, who have never experienced a prolonged bear market, we'd like to remind you, that the SilverPepper Merger Arbitrage Fund can help diversify your portfolio. Our key way in which we diversify is that the successful completion of a merger usually has little to do with the gyrations of the stock-market. That basically means our Fund typically earns its returns at different times than the overall stock market, which may help smooth out your portfolio's ride over time. And our correlation to the Barclays U.S. Bond Aggregate is also low, which means we also don't track the interest-rate risk that likely drives the ups and downs of your bond funds.

Finally, thank you to our investors over the years, especially for sticking with us during these challenging months. We believe our low-correlation strategy, combined with our conservative approach to analyzing and investing in mergers, will continue to add up to a favorable tradeoff between risk and return. Although many things may change due to the pandemic, we anticipate the market for corporate mergers and acquisitions will return, and the SilverPepper Merger Arbitrage Fund will be there. And we'll be positioned to take advantage of those investment opportunities — Dime After Dime, Time After Time.

With respect,

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.

As of June 30, 2020 the SilverPepper Merger Arbitrage Fund's portfolio holdings included a 3.91% long position in IberiaBank, as a percent of the Fund's total assets. All other securities discussed in this document were not securities held in the Fund as of June 30, 2020. Portfolio holdings are subject to change without notice and are not intended as a recommendation.

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