OUR HEDGE FUND EXPERTS SPEAK THEIR MINDS:

COMMODITIES SURGE!

SILVERPEPPER COMMODITY STRATEGIES GLOBAL MACRO FUND

2Q 2021

COMMODITIES SURGE!

Finally, commodities have surged higher — much higher.

In the first half of 2021, the SilverPepper Commodity Strategies Global Macro Fund (SPCIX) rose 15.91%. And over the trailing 1-year period, ending June 30, 2021, the Fund surged 38.05%.

As a result, our Fund, based on its Morningstar Risk-Adjusted Rating, since its inception on October 31, 2013, in its category, Commodities Broad Basket, continues to be the #1 Performing Fund. (1 out of 79 funds, as of June 30, 2021).

Many factors have helped propel this commodities surge. Some are new, and some have been brewing since the Fund's inception. Let's go over them in detail.

OUR 10,000 FOOT, MACRO, BIG-PICTURE VIEW

Massive Money Printing

One big reason commodities are surging is that money is pouring out of the spigots. The last time the U.S. Government had a surplus was in 2001. And when the Great Recession hit in 2007-2009, we got used to hearing about $1 trillion dollar yearly deficits, like it was a normal thing. The government routinely, year after year, started collecting $3 trillion in revenues, and spending $4 trillion. A Trillion here, a Trillion there — and before you know it, it all adds up to real money…

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.

SilverPepper

But then, in 2020, after the government-imposed COVID Lockdowns, Congress passed the $5 trillion dollar Cares Act. On top of that, in March of this year, the Biden Administration passed another $1.9 trillion COVID Relief Spending Package. In addition, another $4-plus trillion of spending is being proposed for “Infrastructure.” The term “Infrastructure” sounds good for commodities, since it invokes images of roads and bridges — the kind of infrastructure that will directly support commodities. About $1 trillion will be spent on that, while the other $3 trillion will be directed to “Human Infrastructure,” which will predominately be new spending on new social programs, which will put more money into circulation, increasing concerns about inflation.

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	6.22	6.13	-4.27	-1.18	6.76	4.60	3.95
2021	1.07	5.52	-4.68	9.46	3.20	0.93							15.91

One-Year Return as of 06/30/20201	38.05
Five-Year Annualized Return as of 06/30/2021	2.90
Total Annualized Return Since Inception, (11/1/2013)	0.40

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Total, gross and net annual fund operating expenses are 2.01%/2.01% for Institutional, and 2.02/2.02% 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, 2030. Inception dates for both share classes is October 31, 2013. Performance and risk measures greater than one year are annualized.

In addition to the fiscal stimulus from Congress, the Federal Reserve Bank's monetary actions are also highly stimulative. Their monetary policy is two pronged. First, it's anchored by record-low short-term interest rates, to incentivize banks to lend. Second, it's focused on keeping lots of liquidity in the market, and putting a lid on longer-term interest rates. To accomplish this goal, the Fed continues buying $120 billion of bonds per month, or $1.44 trillion a year.

Both the fiscal and monetary measures add up to lots of money floating around.

Recall, that the money supply (called M2) was $14 trillion in 2018. Now, just three years later, it is $20 trillion. And, from as recently as 2010, it has increased 150%. Mind you, we're talking Trillions. Now, that's a lot of zeros — 13 zeros by my count ($20,000,000,000,000)! And, the current $20 Trillion does not even include the new spending that's currently under debate in our Nation's Capital.

Inflation Is Here

We know — because recent inflation readings bear it out — that the spending is driving both commodity demand, and inflation. The inflation debate is no longer centered on "Will we get inflation?" Now, the conversation assumes inflation is here. We are seeing it with the recent Consumer Price Inflation increases as well with wage inflation, stemming from the $300 a week Federal Unemployment Payments, which is forcing employers to raise wages to get workers to come on out and do some work. Therefore, the new debate zeroes in on both the degree and duration of inflation. Our current view is that we won't see a big spike in inflation, like we did in the 70s and 80s, but that inflation will build over the next few years — a multi-year trend rather than a flash. But what happens with inflation is an important debate for the Fund, because inflation, generally, coincides with rising commodity prices. Why? Because inflation comes from printing more dollar bills, which is exactly what is going on in Washington, and around the globe. If governments create more units of money (dollar bills), it usually leads to more dollars chasing one unit of oil (a barrel) or one unit of corn (a bushel). Therefore, with inflation, the price of that one unit of a commodity will typically rise in tandem with inflation, holding all other factors equal. So, inflation — especially if we consider the wage inflation and the demographic receiving the wages — should support rising commodity prices, because commodities are hard assets, while printed money is not.

Will Commodity Surge Continue?

Inflation and infrastructure are important elements in our persistent, bullish view on commodities. But, they aren't the only contributors. In addition, our positive view on commodities is also supported by the following observations:

#1: Commodities are cheap, especially in comparison to other asset classes. For example, stock valuations are at all-time highs compared to commodity prices. Indeed, you must go back to the 1970s to find a time when commodities were this cheap, relative to the S&P 500. And the same with bonds. Since short-term interest rates are near zero, commodities face a much smaller headwind, if they are to outperform interest-paying bonds. And although inflation is friendly to commodities, it's downright hostile to bonds.

#2: Vaccines. Whether you're vaccinated or not, the success of Operation Warp Speed was the key that freed the global economy from the grips of COVID. The global economy is accelerating, and despite hot spots like India and South Africa, optimism abounds that the global economy has found its footing.

#3: Oversupply gone. Most commodities had been trading below their costs of production. Oversupply, or inventory, was one of the culprits — and has been since 2014. Much of the oversupply of specific commodities has evaporated. We're back to just-in-time inventory, where demand will influence price behavior more than supply.

#4: Declining U.S. dollar. Huge deficit spending has made the U.S. dollar fall in value relative to other currencies. Commodities are priced in dollars. When the dollar falls, it makes commodities cheaper for the rest of world, providing a tailwind to global commodity demand.

#5: Underinvestment in Commodities: 10 years ago, commodities — as a low correlation, diversifying asset class — were an important piece of every investor's asset-allocation pie chart. But, now they're a missing piece of almost every pie chart, as total commodity mutual fund assets have fallen from $46 billion in 2010, to $22 billon today. If investment demand takes notice of current dynamics in the commodities market, it would add another leg to our bullish thesis. Based on these five pillars and our technical analysis, the Bloomberg Commodity Index may go higher, from 93 today, to potentially 125 by year's end.

NOT ALL COMMODITES PERFORM ALIKE

Energy Was A Money Maker

Energy — natural gas, crude oil, gasoline, heating oil, and gas oil — were all positive contributors to the Fund's returns during the first half of the year. Indeed, about half of the Fund's profits for the first six months of the year can be attributed to our investments in this sector.

The energy sector is currently an incredibly interesting and dynamic sector, with multiple story lines playing out simultaneously. The dominant story has been revived demand across the energy spectrum, all keyed off the great success of folks like Pfizer, Moderna, and J&J in developing the vaccines that led to the lifting of many of the Lockdowns.

Natural Gas

We were well positioned for the energy demand rebound, particularly within natural gas. At nearly 12% of the portfolio's assets, it was the biggest position in the Fund at the end of the quarter. There are many reasons we like natural gas today, and tomorrow.

First, although demand for natural gas can be volatile and is seasonal, we felt much more comfortable with the demand side of natural gas, often used for stay-at-home activities like cooking, heating, and powerplant electricity generation, than we did, for example, with either oil or gasoline, used primarily for commuting and travel, whose demand has been hanging on the revival of the economy.

Second, as U.S. drillers shut down crude wells in 2020, production of natural gas has softened. Yet demand growth has held up, and indeed exports of Liquified Natural Gas have increased of late.

Third, natural gas is a pretty clean fuel — and getting cleaner. Although we believe fossil fuel demand is destined to decline, natural gas is a long-run transition fuel that will aid in the "greening" of the economy, as increasing technical innovations are making it easier to decarbonize natural gas. We think natural gas will be the last fossil fuel to be replaced by renewable energy sources. But, in the meantime, the near-term risk versus reward is attractive, especially given the recent heat wave we are seeing in the Western United States.

Currently, unlike our benchmark, the Bloomberg Commodity Total Return Index, we don't just own the volatile front-month natural-gas contract, which is really a play on current supply, meeting the fickle demands caused by weather. Instead, we own natural gas calendar strips, meaning we own every monthly futures contract for the remainder of 2021, 2022, and out into 2023. Our view is that usage will grow in the intermediate term, because natural gas is a necessary transition fuel for electricity powered by renewables like wind and solar. And even though production will rise — we are seeing rig counts rise — it likely will remain muted, given producers are under pressure to return cash to shareholders, and not invest in new wells. Therefore, we could see natural gas prices continue to climb from its current price of $3.50, up to $4 or $5 per contract. Given the volatility of natural gas, we have a core long position in natural gas strips. But we have also purchased puts, that will provide some protection if prices fall. However, right now our focus is on buying on dips. We will continue to grow our position with every dip-buying opportunity.

Crude Oil

Although all energy commodities rocketed higher on news of an economic rebound, the picture going forward is different, particularly with crude oil. Crude is one of those commodities that is trading above its cost of production. West Texas Intermediate Crude (WTI) represents various grades of sweet crude oil (sweet refers to its low sulfur content), pumped in the U.S. and delivered to Cushing, Oklahoma. The break-even cost for the bulk of U.S. shale oil producers is somewhere in the range of $45 to $55 per barrel. WTI is currently trading on the open market for $72 a barrel.

Brent Crude, the other major oil contract, is based on the light, sweet crude produced in the North Sea. Brent is used to price two-thirds of the world's oil supplies. It was recently trading near $75. Both WTI and Brent prices are heavily influenced by the OPEC game. The OPEC-Plus players have a range of production costs, yet those with significant global influence, like Saudi Arabia, have costs estimated in the mid-single digits per barrel.

Global oil demand is rebounding, especially with summer travel plans picking up.

There are notable exceptions to this global demand, like India, where COVID remains a problem. But OPEC has been holding together, constraining production, and generally speaking, enjoying the higher prices. In fact, the Saudi economy is doing well enough that its Central Bank recently tightened interest rates. If OPEC-Plus remains united, demand will outstrip supply, and prices could grind higher. Yet, the folks in OPEC like to cheat. And one of its members, United Arab Emirates, has been outspoken about its desire to significantly increase its production — thus potentially cheating on its OPEC agreements.

For us, it's a trading market — a 2-way market. While we could see $80 to $85 per barrel for WTI, and maybe a bit higher for Brent, we do not believe the $100 targets are achievable — which some speculators have been jawing about. Why? On the demand side, there are both issues and opportunities. With any slowdown in global growth, or with slowing vaccination rates in the U.S. and abroad, we could easily see demand stall, and get another correction below $70.

On the supply side, the market is not only susceptible to cheating from UAE, Iran, and others, but we could also see more overt pumping. For example, Biden has been encouraging the Saudis to pump. Or we could see U.S. producers step it up. The rig count, according to the analysis firm, Enverus, is up to 536. That's a 90% increase from a year ago.

So, we are playing the market for a two-way move. First, we have a core long position in both WTI and Crude. Second, in case either of the supply or demand scenarios comes to fruition, we have both put options for protection, and call options for upside exposure. If the market moves sideways, we won't see much profit, and will probably lag or underperform our benchmark because of the cost of the options. But, if the market moves $10 either way, we should nicely outperform.

Commodities First, But Global Macro Flexibility Gives Us An Inflation Edge

The SilverPepper Commodity Strategies Global Macro Fund is a commodities fund, first and foremost. But, as the only "commodity strategies global macro" fund in the mutual-fund marketplace, we can invest in assets, such as currencies, stocks, or bonds, that are influenced by commodity prices. We believe this differentiated strategy is an advantage for the Fund. Why? Because it gives us more avenues to potentially find cheaper, better, or less volatile ways to take advantage of changing commodity prices. This global-macro freedom is particularly important in tapping into the inflation momentum we see from Washington D.C.'s active use of the Treasury's printing press.

Foreign Currencies

Because of this heavy increase in the money supply, we continue to see a weakening U.S. dollar, the primary currency in which commodities are priced and traded. So, beginning in 2020, and continuing through the first half of this year, we sold the U.S. dollar against commodity-related currencies, such as the New Zealand and Aussie dollars, as well as the Mexican peso, a currency that is heavily dependent on oil production. At the beginning of the year, our short U.S. dollar position was 35% of the portfolio's exposure. At the end of June, it was about 7.50%. We lost money on these positions in the first half. Sadly, it cost the Fund about 68 basis points of underperformance relative to our benchmark, the Bloomberg Commodity Total Return Index. But we are holding fast, since the U.S. dollar now trades at 93 cents against a broad-basket of foreign currencies, versus 90 cents at the beginning of the year. We can see it making a short-term move, strengthening to 95 cents. But, if it hits that level, we would see it as another major opportunity to sell the dollar, and use that dip, to buy other currencies. **That's because we see continued dollar weakness — with a 30% to 40% decline in the value of the U.S. dollar a possibility.**

Gold

Gold, which has historically served as a safe-haven, hard-asset currency, typically rises when inflation picks up, and people begin to worry about the value of their paper currency. But, as the dollar rallied a bit in the second quarter, it's not surprising that gold also lagged. During the first half of the year, our active trading in gold ranged from about a 2% position in the portfolio, to about 13% position. Gold contributed about 50 basis points of outperformance relative to our index. At the moment, we think gold has bottomed, and may rise from $1,800 to $2,000 per ounce. Although our research is fundamental in nature, we also pay attention to technical indicators. Right now, the 50-day moving average is trading above the 200-day moving average. When this happens in gold, it's called a "Golden Cross," and is typically a bullish indicator. Hence, just as with many of the commodities in our portfolio, we are buying forcefully on the dips.

Upward And Onwards

We began the year with 144% gross investment exposure: 109% commodities / 35% currencies. We ended the first half with 102% gross investment exposure: 94% commodities / 8% currencies. We reduced our exposure when, in short order, the Bloomberg Commodity Index got over 96, corn rose to $7 a bushel, coffee to 160 cents per pound, and crude to over $75 per barrel. Just a little too far, too fast. So, we selectively reduced exposure, and bought some protection. This was a short-term decision, to have some protection in place, by purchasing put options. But, as these prices have fallen from the highs, as anticipated, we are now buying against these puts, because we view these recent dips as good places to not only buy, but to increase our exposure once again. It's a lead-lag approach, and we take it, knowing that reducing exposure may cause us to lag in the near term. But it also prepares us to potentially lead, as we can grow exposure at better prices.

To sum up, due to the rapid price appreciation over the past year, not all commodities are selling below their costs of production any longer, such as oil and corn. And yet many still are, which requires active management of your commodities investment. Moreover, other supporting supply and demand factors, as well as macroeconomic factors, continue to be in place, and should continue to support higher commodity prices for the foreseeable future. Hence, we continue to evaluate each individual commodity, based on the reward they offer versus the risk they present to your capital. And then we aggressively buy those commodities on dips. Dips are buys.

The past year has been an exacting year, in both the commodity markets and in our personal lives. We trust that you and your families are well, and we pledge to continue to work hard to protect and grow your hard-earned assets.

With respect,

Renee Haugerud

Portfolio Manager

More ➤

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 should be read carefully before investing.

Morningstar Risk-Adjusted Returns Performance Rankings: Morningstar Risk-Adjusted Return is adjusted for risk by calculating a risk penalty for each investment's return based on "expected utility theory," a commonly used method of economic analysis. Although the math is complex, the basic concept is relatively straightforward. It assumes that investors are more concerned about a possible poor outcome than an unexpectedly good outcome; and those investors are willing to give a small portion of an investment's expected return.

This concept is the basis for how Morningstar adjusts for risk. A "risk penalty" is subtracted from each investment's total return, based on the variation in its month-to-month return during the rating period, with an emphasis on downward variation. The greater the variation, the larger the penalty. If two funds have the exact same return, the one with more variation in its return is given the larger risk penalty.

The since inception time period is from 10/31/2013 to 6/30/2021. The Risk-Adjust Returns performance ranking includes all funds within the Morningstar category, "Commodities Broad Basket," as of 6/30/2021. The SilverPepper Commodity Strategies Global Macro Fund Institutional Share class (SPCIX) was 1 out of 79 funds for the since inception period, 29 out of 89 for the trailing five-year period, and 90 out of 93 funds for the trailing one-year period. Source: Morningstar Direct. Past performance is not indicative of future performance.

As of date to June 30, 2021, notional exposure of futures and/or options in Natural Gas, 11.74%; Currencies, 7.49%, Gold, 7.01%; Gasoline, 6.74; Brent Crude Oil, 5.47%; WTI Crude Oil, 3.90%; Heating Oil, 2.37; Gas Oil, 1.45% 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 a recommendation.

The Bloomberg Commodity TR Index: As of December 2021, this widely used Index is made up of 23 exchange-traded futures contracts on physical commodities which are weighted within the Index to account for economic significance and market liquidity.

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

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.

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