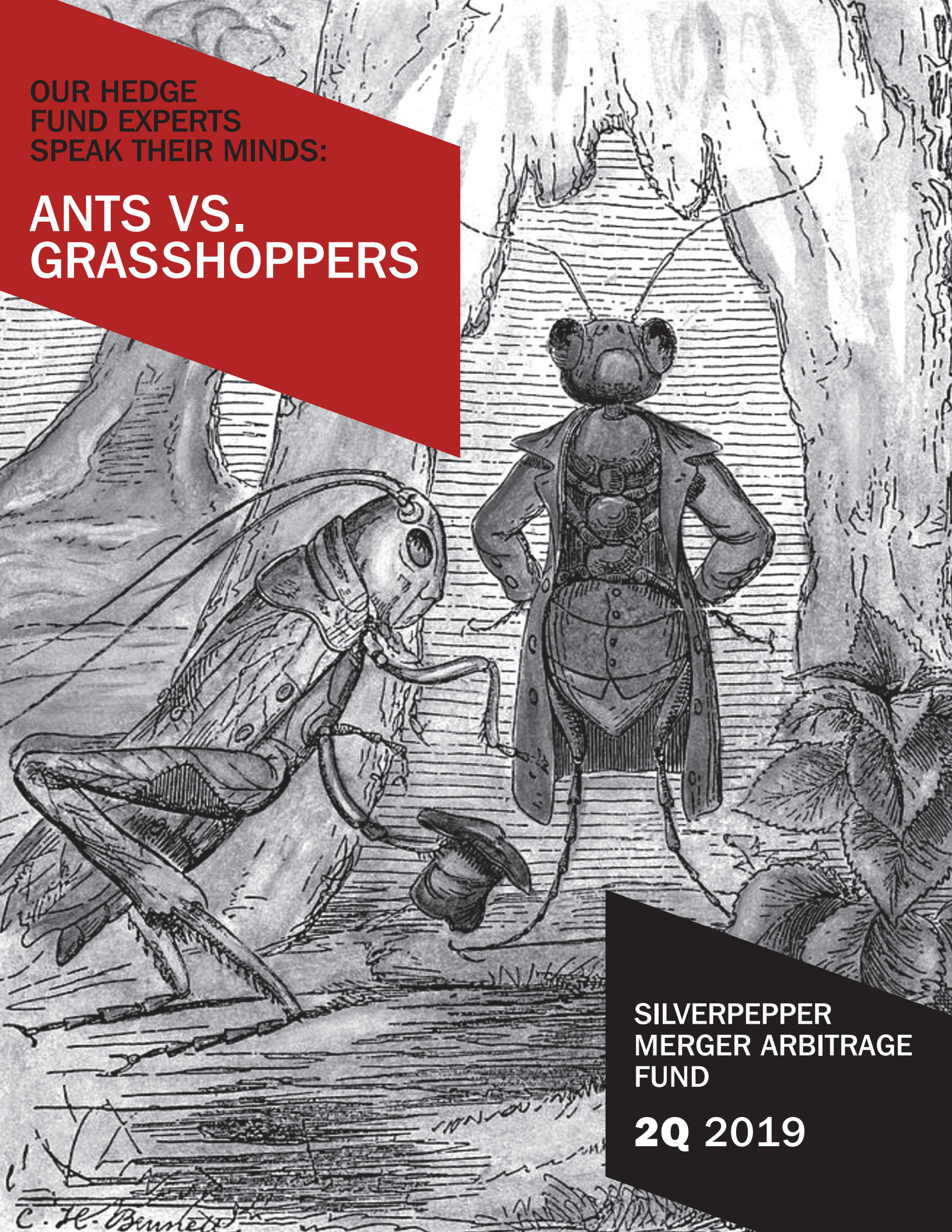
OUR HEDGE FUND EXPERTS SPEAK THEIR MINDS:

ANTS VS. GRASSHOPPERS



SILVERPEPPER MERGER ARBITRAGE FUND

2Q 2019

Markets Gonna Party Like It's 1999

2019 has been rockin' the house, for almost every asset class. Everyone is giddy, with the S&P 500 Index up 18.5% so far this year. Bonds joined the party — maybe even started it, as investors became convinced the Fed was done raising rates, and that their next move would be a cut. The Barclays U.S. Aggregate Bond Index has even gained 6.1% in 2019.

So investors may barely remember a lackluster 2018. The Barclays U.S. Aggregate Bond Index was flat. And for stocks, the S&P 500 Index lost 4.38%, and ended 2018 with the worst December since the Great Depression.

But here at the SilverPepper Merger Arbitrage Fund, we're not dancing on the bar with a lampshade on our head. We remember all too well the market hangover of 2018, and the near-death drop of 2008-2009.

Instead, like Aesop's diligent Ants, we keep steadily storing up tasty morsels for winter — like this year's 1.8%* gain so far — while the Grasshoppers make music and party-hardy, all summer long.

Now 1.8% (which is right around our historical average for a six-month period) doesn't give you the same bragging rights that 18.5% does. But, as they say, "Safety Is No Accident." In fact, it's no accident that Merger Arbitrage investing is designed to help us accomplish our #1 goal: Don't lose your hard-earned dollars!

And by earning you another 1.8%, with much less risk than the overall market, we've accomplished our #1 goal once again. We continued to generate consistent returns, with low volatility. We call our strategy "Dime after Dime, Time after Time," and in 2019 so far, just like the last 5 years — it's working.

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

And over the long-term, we've done even better. We are happy to report that our five-year annualized return clocked in at 3.68%. That puts our Fund more than 80 basis points higher than our next closest competitor, among funds that primarily follow a merger arbitrage strategy. **

Moreover, our five-year gains dwarf that of the average fund in the Morningstar Market Neutral category, by more than 350 basis points. That makes our return, since our inception, the third best out of the 70 funds in the Market Neutral category, all while having the fifth lowest risk. High return and low risk — that's good.

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							1.83

One-Year Return as of 06/30/2019	1.73
Five-Year Annualized Return as of 06/30/2019	3.68
Total Annualized Return Since Inception, (11/1 /2013)	3.57

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Total gross/net annual fund annual operating expenses are 2.81%/2.68% for Institutional and 2.96%/2.93% 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, 2028.

Inception dates for both share classes is October 31, 2013. Performance and risk measures greater than one year are annualized.

Regulators Gone Wild

But giving you high return and low risk is never easy. Regulators got in the way in the first half of 2019, and that hampered your returns, which could've otherwise been better. Across the country, politicians of all stripes are becoming antitrust regulators. Public Utility Commissions, State Attorneys General, and Governors have all started using their positions to implement their personal, and seemingly political, antitrust policies.

The highest profile example of this involves the Sprint/T-Mobile merger deal. It looks like the Federal Trade Commission and Federal Communications Commission support the deal, but the Justice Department has expressed reservations. And a bunch of State Attorney Generals have already filed suit to block the deal. I am not sure that this has ever happened before.

Fortunately, we are not involved in the Sprint deal, because we could smell the regulatory risks a mile away. However, our investors have suffered from regulatory delay in another deal — the Roche acquisition of Spark Therapeutics. We bought into this deal because it was a well-funded, strategic priority for Roche. And we saw no antitrust issues, since Spark is mainly in the development stage with its drugs. However, this deal has been delayed five times now, and might take as long as April 2020 to close. The delays have resulted from repeated requests for additional information from regulators in both the United States and the United Kingdom.

We've been in the deal since it was announced. By the end of the second quarter, it had cost us around 60 basis points of loss for the Fund, including a 45-basis-point hit for the Fund on June 10th. However, we anticipate that the deal will eventually close, and that we'll eventually recoup those losses and close the position with a small gain. Sadly, any gain will be much delayed, and therefore much smaller than what we anticipated. Nonetheless, we are sticking with the deal.

Everybody's a Critic

Two of our other deals have run into opposition from activist investors. Both the Bristol-Myers Squibb purchase of Celgene, and Occidental Petroleum's deal for Anadarko Petroleum, have met resistance from activist investors, who believe the buyers are overpaying, or muddying their companies' business strategies. However, to date their opposition has proven ineffectual. Apparently, activist investors are not as scary to market participants as are Attorneys General! And since we're still making money on those deals, we currently plan to hold them to completion.

But we're closely monitoring them, just in case things turn ugly. We've always said we're after low risk — we don't want you to take a big hit to your principal. Because when a merger doesn't close, it makes for a bad event. The stock of the company being acquired can drop 30%, in an instant. And if that stock was 7% of your fund, that's a loss of 2% in a single day.

We try to control risk by being picky about the types of deals we invest in. Generally, we prefer: 1) well-financed acquirers; 2) purchasing for strategic objectives, rather than for purely financial perspectives (like a private equity firm might prefer); and 3) mergers between smaller companies, which are more likely to go under the radar screen of stickler regulators and nosy politicians.

The Outlook for Mergers in 2019

Big deals in the U.S. are at an all-time record peak. Led by the $86 billion merger between Raytheon and United Technologies, and a handful of other $10 billion plus deals, M&A volume jumped 20% in the U.S. during the first half of the year — to a record $1.17 trillion.

But our preferred smaller deals have been tougher to find. Caution is evident in deals worth less than $10 billion. The first half of 2019 "...has seen a decline in deals between $1bn to $10bn, which made up only 32.0% of the total volume — the lowest volume on record."[1] Nonetheless, smaller-cap deals (which typically have less regulatory risk) still account for the largest number of our holdings.

We anticipate that the overall merger environment will remain positive. And we are leaning into the opportunities the market is providing. Currently, we have 30 active deals in the portfolio, across a diverse range of industries. And since the beginning of the year, we've added eight deals to the Fund that are over $10 billion in market capitalization. We've also raised our gross exposure to merger deals to 171% of assets, close to the highest it's ever been, as we think the proliferation of deals has created plenty of opportunities to put money to work.

[1] ***Dealogic, "M&A Highlights: H12019." Deallogic M&A Research. Data as of July 1, 2019. https://www.dealogic.com/insight/ma-highlights-h1-2019/***

Remember, Winter is coming, Grasshopper.

You know, the S&P 500 Index has been ripping upward for years, causing most of us to forget what a bear market feels like. The December 2018 decline provided a hint of the threat, but it never fomented an investor panic. And right now, there's an inverted yield curve, where short-term bonds pay a higher rate of interest than long-term bonds. In the past, an inverted yield curve has often been a warning sign that a recession is coming.

So why not make hay while the sun shines? After an 18% gain for stocks in 2019's first half, here's one idea you might consider — take some risk off the table. Take some of those gains out of your stock portfolio, and put the profits somewhere safer…

The SilverPepper Merger Arbitrage Fund may play a role in providing safety (less downside risk and total volatility) in your portfolio. We do this exactly by being so very different from many of the other funds you may own.

You see, because the successful completion of a merger has so little to do with stock-market risk, our Fund has very low correlation to stocks — just 0.24, since the Fund's inception. That makes our Fund an especially good candidate to diversify your portfolio, both against the risks to global economic growth embedded in stocks, and the interest-rate risk that infects bond prices. Remember, our correlation to the Barclays U.S. Bond Aggregate is also low — it's only 0.10.

SilverPepper Sells Diversification.

So, Grasshopper, prepare for the music and dancing to end. Consider rebalancing into the SilverPepper Merger Arbitrage Fund, which has earned 3.57% per year since its inception more than five years ago, with volatility of just 2.15%. Compare that with the volatility of the S&P 500, at 11.63%.

Better risk control may lead to better returns, since not losing money is another way to make money. For example, let's say you had a typical portfolio of 60% S&P 500 and 40% Barclays Aggregate Bond. Historically, by substituting in 10% of our Fund for bonds, your portfolio would have performed better since the inception of our Fund — with little additional risk.

We believe our low-correlation strategy, combined with our conservative approach to money management, adds up to a desirable tradeoff between risk and return. We hope that's why you're an investor, because that's what we do best — and we believe it will be an enduring advantage for the SilverPepper Merger Arbitrage Fund.

Finally, thank you to our investors, whom we believe have invested with us over the years for the steady returns we try to provide, regardless of the market climate.

With respect,

Steve Gerbel

Portfolio Manager

SilverPepper Merger Arbitrage Fund

***About Merger Arbitrage Peer Group Methodology: To create a peer group of funds that specialize in merger arbitrage, we initiated the following screening and classification process. Using Morningstar's mutual-fund database, we screened for: 1). U.S. Domiciled Open-End Funds, with 2). Default Category: "Market Neutral," (146 funds) with category start date on or before 11/1/2013 (70 funds) for funds with 3). Unique Share Class and Institutional (lowest-fee) Share Class (30 funds), for funds whose 4). Primary Investment Strategy Description was Merger Arbitrage, by initiating an automated screening for the word "merger" in either the Fund's name, its investment strategy description or Morningstar Fund Analysis (4 funds), and screening out those funds whose investment strategy descriptions fell outside of 5). HFRI Event Driven: Merger Arbitrage Index, definitional requirements, excluding those funds whose investment process is not primarily focused on equity and equity related instruments, or strategies that specifically limit post-announced mergers to less than 75% of assets over a given market cycle (4 funds).*

Risk Rankings: Morningstar rankings are assigned based on the monthly standard deviation of returns. The rankings include all funds within the Morningstar category "Market Neutral." SilverPepper Merger Arbitrage Fund Institutional Share class (SPAIX) was ranked 17 out of 138 funds for the one-year period ending 6/30/2019 and 7 out of 96 funds for the five-year period ending 6/30/2019, and 5 out of 70 funds for the since inception time period (10/31/2013-6/30/2019). Source Morningstar Direct. Past performance is not indicative of future performance.

Performance Rankings: Morningstar rankings are assigned based on total return. The rankings include all funds within the Morningstar category "Market Neutral." The SilverPepper Merger Arbitrage Fund Institutional Share class (SPAIX) was ranked 5 out of 90 funds for the five-year period ending 06/30/2019 and 59 out of 136 funds for the trailing 1-year period ending 06/30/2019. Source: Morningstar Direct. Past performance is not indicative of future performance.

Since Inception time period is 10/31/2013 to 06/30/2019. Includes all funds within Morningstar category, "Market Neutral," as of 10/31/2013. The SilverPepper Merger Arbitrage Fund Institutional Share class (SPAIX) was 3 out of 70 funds for the since inception period.

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.