SILVERPEPPER
MERGER
ARBITRAGE FUND

2Q 2022

OUR HEDGE
FUND EXPERTS
SPEAK THEIR MINDS:

BOND FUNDS LIKE FALLING KNIVES

SilverPepper

Positive returns.

Yep, in a year when stock and bond funds are falling like knives from the sky, we posted positive returns. We're pleased to report we are doing our job, delivering the diversification investors desire.

So far in 2022, the SilverPepper Merger Arbitrage Fund (SPAIX) has earned 0.63%. Better yet, in the one-year period ending June 30, 2022, we've earned 3.82%. It isn't a ton, but is most likely quite good in comparison to how the rest of your portfolio is performing. Our performance is actually a good illustration of the lower risk, low correlation, diversification benefits our Fund can deliver.

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	-1.10	0.39	0.58	0.48	0.10	0.10	-5.66
2021	0.10	-0.38	0.38	0.86	0.94	0.09	1.21	0.46	0.64	-0.18	0.55	0.45	5.23
2022	-0.45	0.27	0.63	-0.27	0.54	-0.09							0.63

One-Year Return as of 6/30/2022	3.82
Five-Year Annualized Return as of 6/30/2022	1.20
Total Annualized Return Since Inception, (11/1/2013)	2.70

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 3.28%/2.55% for Institutional and 3.43%/2.80% 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, 2031.

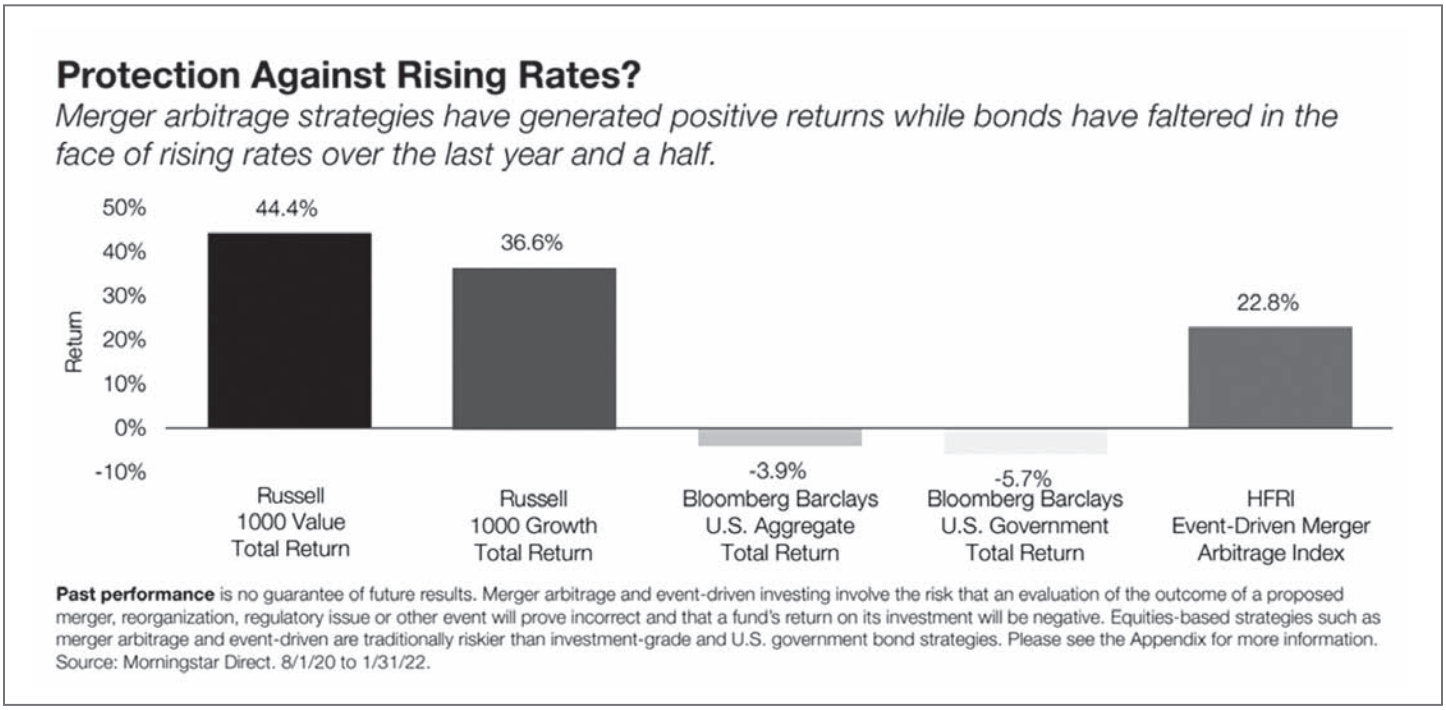
Inception dates for both share classes is October 31, 2013. Performance and risk measures greater than one year are annualized.

By Comparison With Your Other Investments

Consider all the worries of the world we face as investors: the war in Ukraine, China, supply chain issues, regulatory uncertainty, rising interest rates, the crypto implosion, a record Consumer Price Index (CPI) inflation rate of 9.1% — and more specifically, food prices up 12%, and gas prices up 60%.

Worst of all for most investors, the S&P 500 lost one-fifth of its value, dropping -19.96%, and very few analysts believe we've hit bottom yet. Where to turn when risk assets go bad? Most investors would rebalance their 60/40 portfolios into their "low risk" option — bonds. Yet bond funds in the first half of the year have punctured investors like falling knives, with the Bloomberg U.S. Aggregate Bond Index falling a whopping -10.35%. And Fed Chair Powell has said that the Fed "would resolutely do whatever it takes" to rein in inflation. That means more rate hikes — and potentially more falling knives from your bond funds.

The only good news for investors, according to new research from Oppenheimer, is that "Merger arbitrage strategies have generated positive returns while bonds have faltered in the face of rising rates…"



Read the article: "Merger Arb Boosts Diversification" by Oppenheimer Asset Management, March 21, 2022.

The research continues: **"An allocation to merger arbitrage strategies can offer upside potential as well as diversification benefits."**

By Comparison With Our Merger Competitors

Our performance also looks pretty good against our most relevant peers. The six specialty funds that specialize in merger investing lost an average of -0.49% for the first six months of the year, while our 0.63% return kept our investors in the black.

And over the longer-term, we've climbed back above average because of our solid performance over the past two years. Among the four merger-arbitrage specialty funds that have been around as long as ours, we're now number two in total return performance, with a 2.70% return per year. That compares well to the 2.45% average of the four funds in the specialty merger-arbitrage peer group for that same period.

Relative to our new, larger, Morningstar Category of 39 Event Driven Funds, we also continue to do well. We joined this category a year ago, and have been highly competitive ever since — earning 359 basis points more than the average Fund in the category for three months, and 411 basis points more over six months, and have ranked 1st for performance over the trailing year. Our Fund's investment strategy includes a "hedge" component, while many of our event-driven peers do not, and so they tend to have much higher exposure to equity markets or equity beta — which has been a significant negative in recent months. So, as I pointed out in our last letter, it shouldn't be a big surprise if we lag, or if our Morningstar Rating falls, when equity markets rally; nor should it be a huge surprise when we outperform — like now — when equity markets get walloped.

SPACs Are Wack

One source of our Fund's superior performance is our continued avoidance of Special Purpose Acquisition Companies ("SPACs" — pronounced "Spacks"). These blind pools of capital are raised on speculative hopes of a future merger with a private company. The possibility of a future merger made them tangentially related to merger arbitrage. But there are two significant problems with SPACs: the merger terms are unknown, and no arbitrage is possible! Instead, they're more of a speculative play on a potential merger and don't align with our commitment to invest in announced mergers. Now, SPACs helped our competitors in 2021, when SPAC speculation was running wild. But, now, with investors running away from risk over the past six months, "blind" investments have fallen out of favor. Some SPAC indices fell double digits, which has likely contributed to the losses at some of our peer funds.

At SilverPepper, we're into risk-avoidance — not investing in Fool's Gold. So it's never been hard for us to walk away from these pig-in-a-poke deals. We've always maintained, and always told you: **The mergers we avoid are more important than the mergers we invest in.**

And the mergers we want to avoid most, are the SPACs mergers, that are never announced, don't always happen, and were always like pie-in-the-sky somewhere over the Big Rock Candy Mountain.

A Regulatory Mine Field

The biggest challenge for the merger markets has been the barrage of negative news, which raises fear and uncertainty in CEOs' outlooks. CEOs and markets just don't like uncertainty, and neither do we. Anything that raises the uncertainty of whether or not a merger deal will close is bad for us. And the biggest source of that uncertainty has come from regulatory and antitrust scrutiny from regulators. These regulators include the Federal Trade Commission (FTC), the Department of Justice (DOJ), the Federal Deposit Insurance Corporation (FDIC), and most relevant for our favorite deals in the financial sector, the Consumer Financial Protection Bureau (CFPB).

The current Director of the CFPB is the controversial Rohit Chopra. He also sits on the board of the Federal Deposit Insurance Corporation (FDIC), which has the ability to block state-chartered bank mergers, such as New York Community Bancorp's (NYCB) purchase of Flagstar (FBC). He's controversial because he's attempting to extract an unprecedented level of concessions from the banks on issues such as climate change, full employment (by limiting layoffs and branch closings), and by demanding larger Community Reinvestment Act commitments.

How are state-chartered banks like NYCB and FBC responding? To circumvent Director Chopra's unprecedented demands, they're seeking a national bank charter, in order to be regulated by the Office of the Comptroller of the Currency (OCC), instead of Chopra's FDIC. But that results in a delay of their merger closing. Fortunately, we exited this deal, and just about every other bank deal late last year, since our minesweepers detected early on the regulatory minefields this gentleman would sow.

Another Chopra regulatory minefield

Recently, private equity powerhouse Madison Dearborn Partners announced they would acquire MoneyGram (MGI), a leading provider of consumer-to-consumer payments, for $1.8 billion. We invested in the deal. Then Chopra, in his capacity as the Director of the CFPB, filed a lawsuit against MGI, accusing them of charging "junk fees."

A few days later, Director Chopra was called to testify before Congress. Senators grilled him: Where did he get this term "junk fees"? But Chopra declined to even define the term "junk fees," which serves as the basis of his lawsuit. This led numerous Senators to ask how he expects financial institutions to comply with "his rules" — not the law — when he won't even define "his rules"? MGI stock fell more than 11% on the news, costing the Fund approximately 25 basis points. Since then, the stock has recovered most of those losses, and we're still holding it, as the deal is still scheduled to close in the fourth quarter, and if it closes according to the terms of the merger agreement, offers approximately a 9% return.

The regulators weren't the only problem this year, though. Because of our process, we avoided the sketchiest deals, like Elon Musk's bid for Twitter. Instead, we look for high quality deals, like Thoma Bravo's cash bid for software firm, Anaplan. But even this deal got tripped up, when Thomas Bravo cut their bid by a couple of bucks a share in early June, costing the Fund another 25 basis points. We held on through the closing later that month, and recouped 5 basis points, to make the best of a bad situation.

Arbitrage Diversification

This year we also added another arbitrage strategy with a small chunk of assets, around 5% of the portfolio. It's called Mandatory Preferred Arbitrage ("MPA"), which is merger arbitrage without all the regulatory approvals, and with a definitive closing date. We buy preferred stock, that pays a decent coupon, and that we know is guaranteed to be mandatorily converted to common stock, at a fixed future date. We short the common stock, to eliminate the stock risk, and seek to collect the difference in yield. The returns are similar to merger arbitrage, but with even higher levels of certainty around closing dates. There are risks in this market that we face, with probably the biggest being the issuing company going bankrupt. But even in that case, the preferred stock would be senior to the common stock, and likely retain some value. It's a relatively small opportunity, because there are only a handful outstanding issues. And it's also challenging to trade in significant volume, which makes it perfect for a small, nimble fund like the SilverPepper Merger Arbitrage Fund.

Avoiding The Blowups

Because of our prudent approach, we have adjusted to the global waves of risk, by battening down the hatches. We continued to cut our overall merger exposure markedly over the quarter. In the first quarter, we had 27 deals, and 127% long exposure. By the end of the second quarter, we were down to 21 merger deals, comprising 84% of assets. We continue to favor small and mid-cap deals, which even in this environment, tend to be less-complex businesses, and come with less regulatory risk. And we have just 24% of assets in the large-cap deals, which the bigger, more bloated competitor funds must favor, because of their asset girth.

But despite all of the challenges, deals continue to be announced, by savvy market participants scouring for bargains. It is exactly these types of conditions that allow brave CEOs to pick up assets at reduced prices. I think it is also important to remember that as long as our deals close under the terms originally agreed upon at the time the deal was announced, and in a timely manner, we should earn that arbitrage, or profit, on each individual investment. As long as we remain disciplined in choosing which deals to invest in — and those deals close — I remain confident that we will be able to continue to produce attractive risk-adjusted returns over the coming months.

SilverPepper. Get Diversified.

We would like to thank all our investors over the years, especially those with the resolve to stand with us since our inception in 2013. We believe those investors have been rewarded with the diversification and lower correlation benefits of merger-arbitrage investing, and we think new investors will be treated similarly if they choose to persist with us through the years ahead. With stocks way down, and bond funds like falling knives, we will strive to keep delivering positive returns — returns that are not dependent on the daily gyrations of the markets — for you and your portfolio.

With respect,

Steve Gerbel

Portfolio Manager

SilverPepper Merger Arbitrage Fund

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.

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.

Performance Rankings: Morningstar rankings are assigned based on total return. The ranking Includes all funds within the Morningstar category "Event Driven." The SilverPepper Merger Arbitrage Fund Institutional Share class (SPAIX) was ranked 30 out of 37 funds for the five-year period ending 06/30/2022 and 1 out of 39 funds for the trailing 1-year period ending 06/30/2022. Source: Morningstar Direct. Past performance is not indicative of future performance.

**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: "Event Driven," (39 funds) with category start date on or before 06-30-2022 (39 funds) for funds with 3). Unique Share Class and Institutional (lowest-fee) Share Class (16), 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 (12 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 (6 funds) and (4 funds with a start date on or before 10-31-2013). Source: Morningstar Direct.*

Beta is the measure of a fund's sensitivity to market movements, typically as compared to the S&P 500 Index. By definition, the beta of the market is 1.00. Accordingly, a fund with a 1.10 beta is expected to perform 10% better than the Index in up markets and 10% worse in down markets.

Portfolio holdings are subject to change without notice and are not intended as a recommendation. As of 06-30-2022, MoneyGram was 0.63 % of net asset; and New York Community's, Flagstar Bancorp, Anaplan, and Twitter were 0.0% of net assets.

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

INDEX RETURNS AS OF 06/30/22	1 YR	3 YR	5 YR
Russell 1000 Growth Total Return	-18.77%	12.58%	14.29%
Russell 1000 Value Total Return	-6.82%	6.87%	7.17%
Barclays US Agg Total Return	-10.29%	-.93%	.88%
Barclays US Agg Gov Total Return	-8.82%	-.85%	.76%
Index HFRI Event-Driven Merger Arb	.47%	5.84%	4.97%