

OUR HEDGE
FUND EXPERTS
SPEAK THEIR
MINDS:

YEAR OF THE RAT

SILVERPEPPER
COMMODITY
STRATEGIES GLOBAL
MACRO FUND

4Q 2019



YEAR OF THE RAT

China and commodities go hand in hand. So, as we start the Chinese Lunar New Year, it's hard to ignore the symbolism. Yep, it's the Year of the Rat. The Rat is the first animal in the Chinese zodiac, representing both wealth and growth. And because the Rat marks the beginning of a new turn around the Chinese zodiac's 12-year wheel, the Rat also symbolizes the Dawn of a New Day. I believe that China's signing of the commodity-heavy "Phase One" Trade Deal means that 2020 should also trigger the Dawn of a New Day for commodities.

2019 looks like a breakout year for commodities. The SilverPepper Commodities Strategies Global Macro Fund (SPCIX) was up 4.34%.* This was a welcome upturn after an incredibly difficult three- to five-year period for commodities as an asset class. The Bloomberg Commodity Total Return Index did even better, rising 7.69% for the year. While we wish we had outperformed it in 2019, we're encouraged that, since the Fund's inception, we continue to handily out-pace the Index by more than 3.5%, annualized. As a result of our long-term record, the Fund is the #1 Performing Fund out of 72 funds in our Morningstar category "Commodities Broad Basket", based on total return, since our Fund's inception on October 31, 2013. **Number One.**

How did we significantly outperform the Index over the long-term? Risk control.

Unlike a blindly-guided index, we have a well-established risk-control process, that considers the risk-reward tradeoffs of each commodity we purchase for the Fund. As a result, not only have we had better long-term returns than the Index, and our Morningstar peers, but have also delivered better returns with approximately 50% less risk. That's textbook. More return, less risk.

****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.***

Dawn of a New Day

Why do I believe the Year of the Rat marks a new day for commodities?

Reason #1: The new “Phase One” Trade Deal, on which President Trump and Chinese Vice Premier Liu put their John Hancocks, calls for China to grow its purchases of agricultural commodities from \$24 billion in 2017, to \$42 billion in 2020, and \$58 billion in 2021.

In addition, China has signed on to a \$50 Billion dollar increase in U.S. energy products, like oil and natural gas. That’s a lot of commodities.

Still, there is uncertainty about how the deal pans out. Does it create all new demand, or does it simply shift purchases of, let’s say soybeans, from Brazil to the U.S.? And how much of any new demand was already priced into the market in the run-up to the signing?

My gut feeling is that the Chinese will play a bit of a waiting game on submitting orders for the promised amounts. The Chinese don’t always do what they promise in signed agreements — which could give “The Year of The Rat” another twist of meaning. China may wait and see how things are shaping up as we move into the November election before we see them take action.

But the Trump deal does take enormous uncertainty out of the market. It removes much of the “wet-blanket” that has been hanging over the commodity markets since 2017, particularly agricultural commodities, like corn and soybeans.

Reason #2: The newly signed United States-Mexico-Canada Agreement (USMCA). This trade agreement, which replaces NAFTA, also takes trade uncertainty out of the market, reestablishing duty-free access for U.S. farmers.

Reason #3: The over-supply of commodities that developed after the 2008 global economic slowdown has largely disappeared. No longer do commodity producers need to dramatically sell down existing capacity below their current costs of production. They don’t need to cap wells, or reduce acreage planted, just to cut supply. That’s important, and one reason why prices shouldn’t ebb much lower.

Reason #4: We are moving from a supply-led market to a demand-led market. Here’s why. Growth is moving along nicely in the U.S. Growth also reached 6.1% in China — slower than the Chinese would like, but within the government’s target range of 6% to 6.5%. And the International Monetary Fund just raised their estimates for global growth from 2.9% in 2019, to 3.3% in 2020. Globally, we have very growth-friendly monetary policy, evidenced by low (and even negative) interest rates. Moreover, we are even seeing some fiscal policy efforts to jump start growth in places like India, and even France.

Reason #5: Let’s not forget China’s gigantic, global, infrastructure undertaking, known as “One Belt, One Road.” According to the Council on Foreign Relations, China has already spent an estimated \$200 billion on construction projects in the Middle East and sub-Saharan Africa. It’s estimated that China’s overall investment could reach \$1.2–\$1.3 trillion over the next 10 years.

Reason #6: Lower values of the U.S. dollar usually result in more commodity purchases. Why? Most commodities are priced and traded in U.S. dollars. In 2019, the U.S. dollar fell in value relative to a broad-basket of currencies, after The Fed eased interest rates three times. So if commodities cost less in dollars, people tend to buy more of them. Again, that's supportive of commodity demand.

Reason #7: Commodity demand from population growth. According to the Hecht Commodity Report, the global population has increased by 1.6 billion people since 2000. That means the population is growing by 15 to 20 million people each quarter! That's a lot of mouths to feed, and it will help provide long-term support to commodity demand.

So, there you have it, seven strong reasons that suggest to me that the Year of the Rat will herald the Dawn of a New Day for commodities. It's about time.

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
One-Year Return as of 12/31/2019													4.34
Five-Year Annualized Return as of 12/31/2019													-1.75
Total Annualized Return Since Inception, (11/1/2013)													-2.49

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.

Energy Led in 2019, But Not in 2020

In 2019, the best performing sector of the commodities market was energy. West Texas Intermediate Crude (WTI) and Brent Crude were two of the three largest profit drivers for our Fund. Although our Fund made good money on crude, crude prices did not travel in a straight line upwards.

Instead, crude prices were volatile. Crude fell from its October 2018 high of about \$75 a barrel, down to \$45 entering 2019, and ended 2019 at \$61. For much of 2019, we were underweight crude, or hedged against declines. Hedging probably cost us about 50 basis points of underperformance against our benchmark for the year. But obviously, we paid for those hedges because we thought it was worth it, given the swings we saw in prices.

The world of oil has changed dramatically in the past decade, mainly due to the

big jump in U.S. production. For example, the U.S. Energy Information Administration (EIA) counted U.S. oil production at 5,512 barrels in the month of December 2009. Ten years later, U.S. drillers sucked out 12,900 barrels of oil, a production gain of 134%. As a consequence, the U.S. has moved from a net importer of oil, to a net exporter. And, the Middle Eastern producers, who have become the suppliers of last resort, have had to reign in their production, to try to keep the price high for “black gold.”

Of course, the market continues to be vulnerable to oil shocks. For example, we experienced the Iranian attack at Saudi Aramco; and the volatility that followed in the aftermath of the death of Soleimani. Nonetheless, I believe oil will be range-bound for the near future. Right now, supply and demand look fairly balanced, and I don't see that changing at the moment. I'd be somewhat surprised if U.S. production gets much larger in 2020, since U.S. banks and equity investors are pressuring drillers to stop using revenue to drill more wells, and instead use profits to pay down debt, and improve their balance sheets. If this causes U.S. drillers to tighten supply, the Saudis will be willing to meet any shortfall.

Therefore, all things considered, we see WTI trading in a range between \$55 and \$61 per barrel. Although we have a core futures positions in both Brent and WTI, we are altering our exposure as WTI moves to the edges of the range. For instance, we are selling put options below \$55. By doing this, we collect some income from selling the options, and if prices fall below \$55, the Fund will get “put to,” or end up owning more oil, which I am happy to do at this low end of the range. On the flip side, we will sell call options at the top of the price range and take profits, if oil moves above \$61. In layman's terms, the options are just a way to implement a “buy low, sell high” investment strategy. My one caveat here is that if the U.S. dollar falls in value further against other currencies, we could see extra buying, which would push prices above the range. This is something we will be watching carefully.

We Are Aware of the Index, But We Sure Aren't Tied to It

At the end of 2019, our investment exposure was 89%, consisting of 86% exposure to commodities, and 3% exposure to commodity-related currencies. 89% exposure is a bit light, but it was less a conscious decision on portfolio positioning, and had more to do with the cash flows in the Fund during the month of December. At the same time, the portfolio was broadly diversified across 25 different commodities (the Index holds 23 commodities, but we have used our flexibility to own out-of-index commodities, such as cocoa and Midwest wheat). We rarely hold so many individual commodities at one time, but I established broad-based exposure, because almost all commodities were trading below the cost of production when we entered calendar year 2019. I believed, therefore, that the commodity rally would be broad-based and they would rise in value. Broadly speaking (pun intended), I was correct.

Now, as we enter the Year of the Rat, market dynamics have changed. Beans, wheat, corn, natural gas (and LNG), and copper are trading at or below their costs of production. But oil, at \$55 per barrel, is now trading above its cost of production. Same with gold. I estimate gold's cost of production at \$1,000 to \$1,250, but it's trading around \$1,500.

As a result, in 2020, the portfolio will have stronger exposure to the individual commodities we think have a risk-reward tradeoff that's strongly in our favor — in particular, coffee and cocoa. Also, while being mindful of risk, we may also grow our leverage, or notional exposure, to 125% to 150% of assets — if we find compelling opportunities.

High on Coffee

We think coffee prices could potentially double from the current price of about \$1 per pound — with not much more than 10 to 15 cents of downside. We love trades like that.

Previously, the “Starbucks on every corner” phenomenon had resulted in producers responding with global over-supply. In addition, as I wrote about in previous letters, the record short position (a bet that prices will fall) still exists in the futures market, but is an increasingly tenuous position to hold given new supply/demand status.

Because now, the USDA reports that global coffee consumption has risen from 145 million bags in 2014/15, to 166.4 million bags in 2018/19, and will rise to 169 million bags in 2019/2020. And population growth and consumer changes are pushing demand higher still.

Americans, per capita, already drink about 300 cups of coffee a year. But in China (and other emerging markets), coffee is the new, affordable luxury good. And currently, the Chinese only drink 5 cups of coffee per year, per capita. But when millions move each year to the big cities, especially the millennials, their coffee drinking spikes, to 20 cups per year. Because of these trends, Chinese coffee consumption has been rising by 10% per year, and we think that pace will continue.

So far, coffee producers have been able to meet growing demand through gains in efficiency, like better coffee-plant pruning, placement, density, and fertilization. And, they got some help in meeting growing demand by “The K-Cup revolution.” It’s been a huge efficiency gain. Remember how we all used to just brew a big pot of coffee? Then, when the pot grew cold and gross, someone would throw it out, and brew a whole new pot? Now, with K-Cup Cup technology, you only brew what you intend to drink. As a result, consumers get more cups out of every pound of coffee, and producers get help from these efficiency gains in meeting growing demand. Basically, coffee producers lost the kitchen sink, as a solid, repeat buyer. And, new drinking fashions are changing the efficiency paradigm. For example, one new trendy fashion is “cold-brew coffee” (which isn’t the same thing as iced coffee). It’s made by letting coffee brew in cold or room temperature water, for 12 to 24 hours, resulting in a mellower, less acidic-tasting coffee. But, cold-brew is an efficiency loser — this popular new menu item uses twice the amount of coffee grinds as a regular cup of Joe.

But we also see a Global Macro play here. Brazil produces about one-third of the world’s coffee. The U.S. dollar has been strong vs. the Brazilian real. Therefore, even with low current coffee prices of a \$1 per pound, Brazilian farmers have been willing to sell their coffee, because they are making good money (in local-currency terms) on the exchange rate when they convert their sales in U.S. dollars back into the real. If the real strengthens, they could easily hold back sales until they see a commensurate increase in the price of coffee to offset the currency differential. One way or another, we see opportunities to generate profits on coffee.

The Short and Sweet of Cocoa

Cocoa, the essential ingredient in chocolate, isn’t a commodity included in the Bloomberg Commodity Index, but it is included in our portfolio. Why?

On the demand side, everybody knows chocolate is delicious, but most folks think it’s bad for you. Turns out, a small nibble of chocolate a day might be just what the Doctor ordered. Cocoa beans contain flavanols (and dark chocolate contains the highest levels of flavanols), which studies show may reduce the risk of cardiovascular disease.

And in Asia and India, chocolate is considered a luxury good, so demand in those regions is expected to rise by about 8% per year, while global demand per year should rise about 5%.

This rising demand may be challenging to satisfy. The already highly-inefficient cocoa producing countries of Ivory Coast and Ghana, who account for about 65% of global cocoa production, are forming what is being dubbed the “Chocolate Cartel” — with the goal of dramatically raising prices. In a well-intentioned-sounding effort to create a living wage for farmers, the government-formed cartel will start putting, in 2021, a \$500 “Living Income Differential,” or embedded subsidy, on every ton of exported cocoa. But the road to corruption is paved with good intentions. The governments there say the \$500 per ton will be paid directly to the farmers, but since the farmers sell through middlemen and cooperatives, what percentage gets back to the farmers remains to be seen.

Moreover, President of the Republic of Ghana, Nana Addo Dankwa Akufo-Addo, (can you say, “mouthful”) is also taking action to reduce cocoa as a raw material export. He’s borrowing money to build plants to process the raw materials into more finished ones, like cocoa powder, to capture more value along the food chain.

Additionally, cocoa farmers have found other ways to earn a living wage, largely by reducing their cocoa plantings, and diversifying their crops. In combination, we believe these supply and demand distortions make cocoa an interesting risk-reward play, causing the future price of cocoa to rise to nearly \$3,000 per ton.

The Zodiac’s Wheel Spins Into a New Year

All in all, we believe “Phase One” and the USMCA have greatly diminished the risks of increased tariffs, and an ongoing trade war, that have wreaked havoc on commodities since March of 2017. Under President Trump’s new trade deals, commodity prices should be less hampered by macro trade policies, and instead tie more tightly to the

specific supply and demand factors of the commodities in which we invest. It is for these reasons that the Year of the Rat should serve as the Dawn of a New Day for commodity investors.

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 class (SPCIX) was ranked 11 out of 80 funds for the five-year period ending 12/31/2019 and 91 out of 106 funds for the trailing 1-year period ending 12/31/2019. Source: Morningstar Direct. Past performance is not indicative of future performance.

Since Inception time period is 10/31/2013 to 12/31/2019. 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 72 funds for the since inception period. 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.

As of December 31, 2019, notional exposure of futures and/or options in WTI Crude Oil, 5.22%; Brent Crude Oil, 4.82%; Coffee, 1.75% and Cocoa, .37% 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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