2Q 2023

OUR HEDGE
FUND EXPERTS
SPEAK THEIR MINDS:

ONLY FISH IN THE BIGGEST POND

America's Only Currency Mutual Fund — Our First Six Months

We're off to a good start. For the first half of 2023, which also marked our first six months of operations, the SilverPepper Long/Short Emerging Markets Currency Fund (SPEFX) posted a return of 1.70%. How did we perform, compared to other currency funds? Way better, since we are America's Only Currency Mutual Fund! That's correct, in America, our Fund alone has the entire asset class of currencies to itself. And currencies are the world's largest asset class based on daily trading volume, bigger than stocks and bonds combined. It's a big pond — the biggest, really — and we're the only fish in it.

SILVERPEPPER LONG/SHORT EMERGING MARKETS CURRENCY FUND INSTITUTIONAL MONTHLY RETURNS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2023	1.80	-7.96	2.03	1.88	-0.82	5.28							1.70
2022												0.00	0.00

Year-to-Date Return as of 06/30/2023	1.70
Total Annualized Return Since Inception, (12/28/2022)	1.70

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 annual fund annual operating expenses are 2.01% for the Institutional class. 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 1.85% for the Institutional class. This agreement is in effect until October 31, 2032.

Inception date is December 28, 2022. Performance and risk measures greater than one year are annualized. Correlation and standard deviation figures are since the Fund's inception and are for the Institutional class shares.

Opportunities Abound

In the first half of 2023, the currency markets were dynamic. Near-zero interest rates, which have dominated currency-market exchange rates for a decade, are no longer the norm. Inflation, surging around the world, is the most prominent factor stirring the currency pot, with the U.S. Federal Reserve Bank aggressively raising interest rates to defeat inflation. In response, many Central Banks across the globe, and especially among the emerging-market countries, are changing their interest-rate policies to adapt to this new environment. Moving into the second half of 2023, we believe these changes are creating a very vibrant and opportunity-laden environment. So, what's our plan of attack?

Our Profit-Seeking Process: Behavioral Pattern Matching

History has shown us that forecasting currency prices is impossibly tough work, when you only use fundamental data like economic growth, interest rates, and inflation. Ever since currency exchange rates began to float in the 1970s, currency valuations have defied the economic models. Forecasters tried fundamentals-based models, such as Purchasing Power Parity (PPP), which compare the prices of tradeable goods across countries. They also tried macro-models, which incorporate factors such as GDP, money supply, or inflation. Both types of models have largely proven themselves to be flawed — simply not reliable for forecasting future currency exchange rates.

We've spent the bulk of our professional careers in the currency markets. We believe most traditional currency-valuation models flounder because they underestimate the effect of high interest rates. High interest rates play a major role in attracting capital flows to emerging-markets countries, even when those countries experience inflation, volatility, and lackluster economic growth. Indeed, as long-time students of the currency markets, we realize that the high-interest rates paid by Central Banks are, for lack of a better word, ***bribes***.

Central Banks are willing to pay a premium rate of interest, the "bribe," on short-term debt for a variety of monetary, trade and political reasons, all to maintain capital in their country. That bribe is intended to make you turn and look the other way from the economic challenges they face, and keep your capital in that currency. When investors think the bribe outweighs the risk, money "flows" into that currency. When investors think the bribe is not worth the risk, money "flows" out of that currency.

We began, back in the 1990s, to study a currency's investment "flows," as a better way to predict *future* currency prices. We measure flows by noting significant relative increases or decreases in a currency's price, compared to its historical prices. Our analysis led to the discovery of patterns in these flows. Since 2010, we have used our Behavioral Pattern-Matching Methodology to produce buy and sell signals, triggering either long or short trades, in a select number of emerging-markets currencies, primarily against the U.S. dollar.

Patterns Of Greed and Fear. How We Identify Them.

What are patterns? They're recognizable repeats. That's all they are. And we find them everywhere in our daily existence. For example, waves are patterns. Tides are patterns. Human emotions also form behavioral patterns. In currency investing, we discovered that two primal emotions govern the formation of patterns — greed and fear.

Here's the shortest explanation of our investment methodology: We attempt to buy currencies increasing in value (a greed pattern); and we sell short currencies declining in value (a fear pattern). It's that simple. Yet, our process is rigorous. Using our extensive flow-analysis, we've discovered predefined, recognizable, and recurring patterns in currency prices.

To identify these patterns, we rely solely on daily currency prices — not fundamental inputs. Our pattern-matching model sifts for "significant" price data to determine whether a specific price change represents the sporadic "waves" of "trade flows," or the more meaningful "tide" of "investment flows." For it is only "investment flows" which signal turning points, higher or lower, in the trending direction of an emerging-markets currency's price.

The patterns, which are different for each emerging-markets currency, look a bit like waves, graphically. But the waves are behavioral in nature and reflect, quite simply, the basic human emotions of greed and fear, as investors search for higher returns. Return seeking investors notice the "bribe" of higher interest rates, offered by an emerging market currency, like the Brazilian *real*. So, they sell a lower-yielding currency, like the U.S. dollar. or the Japanese yen, and purchase the Brazilian *real*, earning that higher interest-rate, that central-bank bribe. They and many other investors "greedily" buy and buy, creating an upward-trending pattern in prices, to the top of the wave.

Then, like a surfer on top of a tsunami, the investors get scared of falling. Here, the bribe is no longer enough to offset the perceived risk. The emotion of greed is replaced by the opposite and powerful emotion of fear — which drives a correction in prices downward.

Our Behavioral Pattern-Matching Methodology is squarely aimed at discovering these behavioral patterns of greed and fear. Our "secret sauce" is akin to a Tide Table. It identifies the key prices that signal the beginning of each currency's recognizable pattern, and a future flow of assets, either in or out of a currency. The patterns give us valuable insight into the next persistent and impulsive flow in prices, either higher or lower. That's what we really want to capture, these impulsive trends within a pattern.

Importantly, if a currency isn't trending, or isn't fitting a pattern, we will not have a position in the currency. No pattern, no position. When these patterns are correctly identified, they are an important predictor not only of entry prices, but importantly, exit prices. Therefore, a pattern simultaneously determines both the entry and exit prices, providing an important element in driving not only returns, but also controlling risks. So, remember, we buy the greed, and we sell short the fear.

Our Pattern Matching Methodology Creates Two Potential Sources Of Profit

The Fund may profit from trading emerging markets currencies in two ways:

The Carry: First, our aim is to make money by earning what's called the "carry." Carry is defined as the difference in interest rates between the higher interest rate currencies, like the Indian rupee, and the lower-interest rate currencies, like the U.S. dollar. It's akin to exchanging your U.S. dollars for rupees, and putting them in a bank account in India, to earn a higher rate of interest on your assets.

Price Changes: Second, our aim is to generate a profit by capturing the appreciation or depreciation of an emerging market currency's exchange rate (the "spot rate") vs. a developed market currency, like the U.S. dollar, by taking either a long or short position in a currency.

Technically, our Behavioral Pattern-Matching Methodology doesn't favor one avenue of profit source over another. It's indifferent. Yet, the source of profit, either carry or price changes, does tell us something about the pattern, and the holding period, of the emerging markets currency. For example, long or "positive carry" positions tend to have longer holding periods, because the pattern has more structure and price linearity. The reason for that is intuitive — investors want to hold that currency, and earn that higher rate of interest, for as long as possible.

In contrast, "short carry" positions tend to have shorter holding periods. They express an element of "fear," as the bribe is no longer enough. So, there is less structure to their descending-price pattern, as investors liquidate more rapidly. In general, holding periods for our currency positions, either long or short positions, are not days, but instead, multiple weeks or months.

A Breakdown Of Our Earning Sources In The First Half Of 2023

During the first six months of 2023, the Fund made about 2.65% on carry. For example, we were primarily long the Indian Rupee for most of the first half of the year, where short-term interest rates are near 7.25%, in contrast to the 5% rate in the U.S.

But we lost about 0.95% during the same time frame on declines in exchange rates across the portfolio. Most of the loss in exchange rates stemmed from our position in the Brazilian *real* in the first quarter of 2023, which totaled about 5%. However, most of that loss was made up in the second quarter by a rebound in the real, as well as with gains in our short position in the Chinese yuan.

What happened in Brazil? For years, Brazil had been suffering from rampant inflation, and concurrent depreciation in its currency. But under President Jair Bolsonaro, inflation was subsiding, and the currency began to rally against the U.S. dollar. However, in January 2023, the rally went "full stop," when supporters of Jair Bolsonaro, believing massive election fraud had occurred in their 2022 presidential race, stormed the Presidential Palace and the Brazilian Congress in the capital city of Brasilia. Panic selling of the real began. These events caused sizable volatility in exchange rates, as investors searched for stability. Since we establish a "stop loss" price at the time of trade entry for every position, the volatility of the real in this period caused us to stop out of trades on a couple of occasions.

And, on the other side of the world, the People's Republic of China has economists wondering when it will ever regain its pre-Lockdowns hutzpah of rapid industrialization and economic growth. As a result, the U.S. dollar strengthened versus the yuan, capturing a profit on our short yuan position during the period.

Although these fundamental events impact currency prices, we should reiterate that they aren't the basis of our investment decisions. Our results stem purely from our Behavioral Pattern-Matching Models' ability to correctly identify price patterns, patterns of greed as investors seek out higher rates of return; or patterns of fear, as investors sell a currency whose interest rate is no longer large enough to offset fears of a decline in the exchange rate.

Portfolio Structure

As currency experts, we don't just let the model run wild, however. We refine and review it annually. We oversee its output daily. And we play a decisive role in determining which emerging markets currencies are available to the Fund, and work best with our Behavioral Pattern-Matching Methodology. In our effort to optimize portfolio construction, diversification, and risk and return, we tend to use only a select number of currencies in building the Fund's portfolio.

Our investment efforts are centered on the more liquid emerging markets currencies. We tend to focus the portfolio on the "BRIC" countries of Brazil, Russia, India, and China. These countries have been identified by economists as the growth engines within the emerging world, and as those countries that may emerge by 2050 into the dominant suppliers of manufactured goods, services, and raw material. (The Russian ruble, it should be noted, is currently not tradeable because of U.S. sanctions).

We also trade other emerging-market currencies with good liquidity, such as those of South Africa, Turkey, and Mexico. We stay away from extremely unstable countries, like Argentina or Venezuela — too much of a headache for our methodology. Nonetheless, our select group of chosen currencies account for about half of the world's population, approximately 30% of global domestic product, and broad-based geographic and political diversification.

Leverage Changes Risk and Return

In general, currencies have historically had lower volatility than stocks or bonds. Although the Fund does not have a specific return target, or volatility target, our expectation is to try and deliver return and risk characteristics consistent with global equity markets. Therefore, we use leverage to achieve this intended risk and return profile. Currently, the total gross exposure target is 2.7 times assets. That means for every $1 million in assets, we would target gross exposure of $2.7 million in investment exposure to currencies. However, actual gross and net exposures will vary, based on the actual number of currency positions held at one time, and the direction (long or short) of those positions. Importantly, we will not hold a position if we do not have an exact pattern match for a currency. This keeps us objective in our thinking, and indifferent to being either long or short a currency.

At the end of the first half of 2023, the Fund had 263% gross exposure in emerging markets currencies. We were 180% long, and 83% short. During the first half of the year, all of our emerging-market positions were against the U.S. dollar, which we view as our primary Funding Currency. However, we have the flexibility to use other, alternative funding currencies, such as the yen, euro, or British sterling, particularly in periods when the U.S. dollar is strong relative to other currencies.

Risk Controls

Given the leverage, we attempt to dampen portfolio risk in three ways:

First, although our pattern-matching methodology is intended to exploit the human emotions of fear and greed, we use the quantitative discipline of the model to remove us, as portfolio managers, from acting on our own human emotions of fear and greed. We don't override specific buy or sell signals. Instead, we dispassionately follow the model's buy and sell signals. However, we do reserve the right to suspend a currency from the portfolio based on macro factors, such as capital controls, or political instability.

Second, when the model signals the establishment of a position, it also establishes a "stop-loss" price at the same time. The model automatically adjusts the stop-loss price, as the value of the position increases or goes deeper "into the money." This is an effort to control risk and protect potential profits.

Third, and finally, in building the portfolio, the weights for each currency are optimized by liquidity, not profit maximization. This is also for risk-control purposes. Therefore, the largest portfolio positions are usually in the most liquid of the EM currencies, specifically Brazil, Russia, India and China, with smaller portfolio weights going to currencies like South Africa, Mexico and Turkey.

Do You Already Have Currency Exposure?

Since the Fund launched, we have had a number of conversations with prospective investors about the Fund's strategy. Although the prospects are drawn to the inefficient nature of the asset class, its low-correlation attributes, and the potential to profit, they are uncertain how to use the Fund in a portfolio of funds. Indeed, they often say something like, "we don't invest in currencies." So, we often need to remind them that if they have international funds, they already have currency exposure. Our premise is that almost all investors are in the currency market, — they just aren't optimizing it. Therefore, since we are the only currency mutual fund in the market, it may be helpful to provide a few observations about how the SilverPepper Long/Short Emerging Markets Currency Fund can be deployed to potentially add value to investors' portfolios.

In general, portfolio builders may find the Fund useful in three different ways:

1. As a replacement or complement to your existing emerging markets stock or bond allocation. Historically, many investors have embraced emerging market stocks for diversification. However, over time, that diversification benefit has eroded. Why? Because as globalization has increased, so too have correlations. For the decade of the '90s, beginning January 1, 1990, the correlation of emerging-markets stocks (MSCI EM GR USD Index) to the S&P 500 was 0.57. Yet, over the next two-decade periods beginning January 1, 2000, and ending December 31, 2019, the correlation jumped, to anywhere from 0.74 to 0.79.[1]

And surprisingly, the diversification benefits that come from emerging markets stocks and bonds, come almost entirely from the currency exposure. Research from firms like First Quadrant, and Two Sigma[2], indicate that investors who own emerging markets stocks are receiving two return factors — a) developed-country stock exposure, and b) emerging markets currency exposure.

According to First Quadrant's research, it's the currency exposure that provides the bulk of the diversification benefit. Furthermore, in most international funds, the currency exposure is usually "passively managed," meaning portfolio managers are simply accepting the currency risk, and not actively trying to profit from it. This is an opportunity that can potentially be uncovered.

Furthermore, the returns of emerging markets stocks have been lackluster. Historically, over the past 10 and 15 years, ending June 30, 2023, emerging markets stocks, as represented by the MSCI EM Index, have returned, respectively, a mere 2.95% and 1.81%, annualized. Therefore, we are encouraging investors to ask themselves: Are emerging market stocks meeting your diversification objectives? Or your return objectives? If not, prospective

investors should analyze the benefits of pairing low-correlation emerging-markets currencies, with their emerging-markets stocks, to potentially improve returns, and reduce risk.

2. A new way to seek Absolute Returns. For investors that have, or are looking to build, an Absolute Return bucket within their asset-allocation pie chart, this Fund may be an appropriate addition. Our Fund's asset class exposure, as well as its active, non-directional strategy, which isn't dependent on the daily gyrations of stock and bond markets, may serve to boost the risk and return profile of an Absolute Return Bucket. Also, many absolute return funds have lower return and risk profiles, making our potentially higher return and risk-seeking profile particularly attractive.

3. Adding a new asset class for increased diversification: Many investors are tied to two asset classes — stocks and bonds. And in recent years, the correlations of stocks and bonds have increased to each other. Meanwhile, currencies have had a correlation of -0.36 to the S&P 500, and -0.35 to the Bloomberg Aggregate Bond Index, over the trailing 10 years, ending 6-30-2023. So, the addition of currencies to a 60/40 mix may potentially deliver better returns and less risk. We encourage investors to look again, to understand how the Fund may very well be the missing piece of their asset-allocation pie chart.

Be A Smart Investor. Ask Questions.

We are interested in finding the right investors, investing for the right reasons, with the right expectations. If you've never invested in a Currency Fund before, give us a call. We love discussing the SilverPepper Long/Short Emerging Markets Currency Fund, and the diversification benefits it can provide. We've just spent our first six months, as the only fish, swimming in the world's biggest asset pond. Chat with us. Then consider jumping in! The water's just fine.

Warm Regards,

John Dean & Ross Taylor

Portfolio Managers

More ➤

(1) Source Morningstar Direct.

INDEX	Correlation 1990-01-01 to 1999-12-31 USD	Correlation 2000-01-01 to 2009-12-31 USD	Correlation 2010-01-01 to 2019-12-31 USD
S&P 500 TR USD	1.00	1.00	1.00
MSCI EM GR USD	0.57	0.79	0.74

(2) Currency Hedging Handbook, First Quadrant, Dori Levanoni and Paul Goldwhite, CFA, 2017. Emerging and Frontier Market Equities as Asset Class(es), Two Sigma Investments, Jeffrey N. Saret, March 2014.

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. Read it 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 Long/Short Emerging Markets Currency Fund, the primary risk is quantitative modeling risk, which centers on the model's ability to generate profitable buy and sell signals. The Fund is also subject to currency risk as the value of investments in securities denominated in foreign currencies increase or decrease as the rates of exchange between those currencies and the U.S. dollar change. Currency conversion costs and currency fluctuations could erase investment gains or add to investment losses. The Fund's use of leverage can magnify the effects of changes in the value of the Fund's investments and make the fund more volatile. Other risks include foreign investment risk, emerging markets risk, geographic focus risk, lack of correlation and hedging risk, management and strategy risk and no prior operating history risk.

Correlation is a statistical measure of how two securities move in relation to each other, ranging from -1 to +1. A correlation of 0 means the relationship between the two securities is completely random, while +1 indicates a perfect positive relationship and -1 a perfect negative relationship.

S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average of 500 widely held common stocks.

Bloomberg Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

The MSCI Emerging Markets GR Index (EM) countries. The index measures the performance of the large and mid-cap segments of emerging market equity securities. It is free float-adjusted-capitalization weighted.

IMST Distributors, LLC