SILVERPEPPER MERGER ARBITRAGE FUND

2Q 2023

OUR HEDGE FUND EXPERTS SPEAK THEIR MINDS:

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Back On Top

It's nice to be back on top! Our SilverPepper Merger Arbitrage Fund (SPAIX) is once again the Number #1 Performing Fund, since the Fund's inception nearly 10 years ago on October 31, 2013, against its most relevant peer group — mutual funds whose primary investment strategy is merger arbitrage (1 out 4 funds) through June 30, 2023.* We're also happy to report, for the first six months of 2023, we continued to generate attractive positive returns, delivering 2.03% to investors.

Even against the Fund's broader Morningstar Category, "Event Driven," we are holding our own. As of June 30, 2023, relative to the 37 funds in this category, we rank in the top quartile for the 12-month period; and in the second quartile for the trailing three-year period. And, in comparison to all funds in the category that have been around since our Fund's inception, we're also in the second quartile. This is a noteworthy accomplishment, during a decade when stocks have performed incredibly well. Why? Because many of our event-driven peers do not include a "hedge" component, as does our strategy. They tend to have much higher exposure to equity markets. So, when stock indexes rise, they get more of that upside — while also carrying more risk. Meanwhile, our hedge component has helped us to control risk over the long term, and especially in a year like 2022, when the S&P 500 went down 18.11%. As a result, since our inception, our standard deviation of 3.48 is among the lowest in the Event-Driven Category.

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.

Are We An Attractive Substitute For Bonds?

Most investors use some variant of the 60/40 portfolio. But, can the performance of that 40% potentially be improved, while also increasing diversification? Call me biased, but I think there is a strong case to be made that our merger arbitrage strategy can be an attractive substitute, complement, or diversifier, for investors' bond portfolios. Why? First, our 2.83% annual gain, since inception (10/31/2013) through 6/30/23, is now almost twice the 1.43% annual return of the Bloomberg Aggregate U.S. Bond Index over the same period.

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	0.45	0.72	-0.71	1.16	0.09	0.18	2.53
2023	0.18	0.53	-0.18	0.61	-0.80	1.76							2.03

One-Year Return as of 06/30/2023	3.95
Five-Year Annualized Return as of 06/30/2023	1.78
Total Annualized Return Since Inception, (11/1/2013)	2.83

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Total gross/net annual fund annual operating expenses are 6.08%/4.50% for Institutional and 6.28%/4.75% 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 1.75% for the Institutional class and 2.00% for the Advisor class. This agreement is in effect until October 31, 2032.

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

Second, our volatility is bond-like, at a standard deviation of 3.48 since inception, versus 4.36 for the index. And third, unlike bonds, our Fund has essentially zero interest-rate risk. Jerome Powell and the Fed were wrong when they told us, two years ago, that inflation was "transitory." In all that time, the Fed has been unable to bring inflation down to their 2% target. Powell, therefore, continues to signal that future rate increases are coming. And, when interest rates increase, bond prices decline. Therefore, investors who want to have bond-like volatility, without all the interest-rate risk, might consider the SilverPepper Merger Arbitrage Fund as an ideal bond diversifier.

The Case Of The Arbitrary Antitrust Regulators

The merger and acquisition ("M&A") market in the last 18 months has been on a rollercoaster. In early 2022, the market was strong. CEOs were all revved up, to get back to business, and make up for lost pandemic opportunities. But in late 2022, fears of a Fed-induced recession loomed. And antitrust regulators became increasingly, arbitrarily, aggressive. And so, the M&A markets seized up. But now, as we end the first half of 2023, the market realized the recession could be illusory. And fortunately, an independent judiciary branch has shown some mettle in reining in renegade regulators.

Let's start with banks. These renegade regulators sure made a mess of bank mergers. We've always had a special affinity and expertise in bank mergers, especially among small banks. Why? Those mergers have typically had all the features I relish. Those mergers are domestic; strategic; well-financed; and until recently, have had little regulatory risk. Some of these small-town banks weren't too far different from the one run by George Bailey in one of my all-time favorite movies, "It's A Wonderful Life." But this quarter, I've watched government-appointed banking regulators do such things as set interest rates; determine where a bank's assets should be marked; decide which banks should be closed down on Friday evenings; and which banks should be allowed to merge. All that mucking around has made the historically sleepy and predictable banking industry incredibly difficult to handicap.

The First Horizon (FHN) / Toronto Dominion (TD) Merger

What's worse, these renegade banking regulators often act based on their personal and extreme political agenda, and without regard for the law. And that caused real damage to the Fund in May, 2023, with the First Horizon (FHN) / Toronto Dominion (TD) deal. It's so frustrating, because this merger would have created a stronger and more geographically diversified bank. And under most previous administrations, the merger would have easily crossed the finish line.

Instead, the regulators at the Federal Reserve analyzed the deal for almost a year. Then they refused to approve the merger. Why? The financial press was left to speculate that the regulators withheld approval because of Toronto Dominion's minority lending practices, or their anti-money laundering policies, or their consumer banking practices. Given the scope of potential offenses, TD informed First Horizon that it would take 2 to 3 years of work to rectify the problem! It was at that point that First Horizon made the decision not to wait around. As a result, the deal was very abruptly and unexpectedly terminated. We liquidated our 7,362 share position, with a 62 basis point loss for the Fund. Sad!

Horizon Therapeutics (HZNP) / Amgen (AMGN) Merger

Bank regulators weren't the only problem, however. The Federal Trade Commission (FTC) regulators are also attempting to enforce their own very progressive interpretations of our well-established and decades-old anti-trust laws. For instance, Amgen (AMGN), a leading biotechnology company, agreed to purchase Horizon Therapeutics (HZNP), a firm trying to develop new pharmaceuticals, for $116.50 in cash. Horizon Therapeutics has about 20 drugs in development, with two successful drugs that it purchased, and then developed: one to treat Thyroid Eye Disease (TED), and another to treat gout. Now Amgen doesn't have a single drug in its portfolio that would compete with either of these drugs. So there should be no reduction in marketplace competition, and hence no anti-trust concerns, right?

Nope. Not according to FTC Chairwoman Lina Khan. On May 15th, she decided to file an anti-trust lawsuit to block this deal — apparently on the grounds that a "big" Amgen shouldn't be allowed to buy new drug rights, to become bigger. This is one of the two worst regulatory decisions I have seen in my 30 years of analyzing mergers. The Wall Street Journal editorial board even backs me up, in an opinion piece that did a very good job of summarizing the FTC's completely illogical legal arguments. Why is Lina Khan illogical? Think for a moment. Horizon Therapeutics research, develops, and invents new drugs. They hold the patents on these drugs. The whole idea of a patent is that the government grants them a legal monopoly — exclusive rights to produce and sell these drugs — for a limited time, to allow Horizon to recover their research and development expenses, and to be compensated for the risks they took attempting to develop these drugs. But Horizon doesn't have Amgen's vast salesforce and distribution channels. Merging with Amgen will allow for maximum sales of the new drugs they've invented. This is a clear case of "Bigger is Better."

But, by contrast, if the court finds in the FTC's favor, this lawsuit will unquestionably dampen other small research companies' motivation to pursue the development of new drugs in the future. Why go to all the trouble and expense of inventing new drugs, when you won't have the necessary capacity for sales and distribution, and you're not allowed to sell your patents or company, to profit from your inventions? Maddening.

When the FTC brought suit, the stock tumbled. We sold some of our position for a realized loss, but we retain a 6.3% position in Horizon. We even sat in the courtroom to watch the trial, which was here in Chicago. And we're confident that the Federal Court will eventually find Lina Khan's lawsuit to be meritless. We believe that this deal will ultimately close prior to the end of the year.

Amazon (AMZN) / I-Robot (IRBT)

But Chairwoman Khan is the gift that keeps on giving... the worst decisions ever. Prior to joining the FTC, Lina Khan, as a law school student, wrote an article for the Yale Law Journal, on Amazon (AMZN) being an anti-trust concern.

Amazon entered into a purchase agreement with I-Robot (IRBT) for $61.00 per share. I-Robot makes robotic vacuum cleaners. Amazon doesn't produce a competing product. The only value that Amazon can provide here is enhanced distribution. Analysts are concerned that because Lina Khan wrote this article detailing her negative opinions of Amazon, that her FTC will file a lawsuit to block this deal, despite the absence of any product-related evidence to support this claim. Lina Khan's logic again seems to be, if the company is big, it must be a monopoly. Really? We're talking vacuum cleaners. Nevertheless, the FTC opened a long-running investigation. Now, here's the clincher. iRobot, to have enough cash to last through the investigation, just raised $200 million from private equity firm, Carlyle Group, because the investigation may drag on until the end of the year. As a result, Amazon reduced its acquisition price from $61 to $51.75. So, shareholders of iRobot got burned because the FTC is holding up the acquisition of a company that needs to complete the merger to survive. Right now, the Fund is sitting on an unrealized loss of about 1.1% as a consequence of FTC's antics.

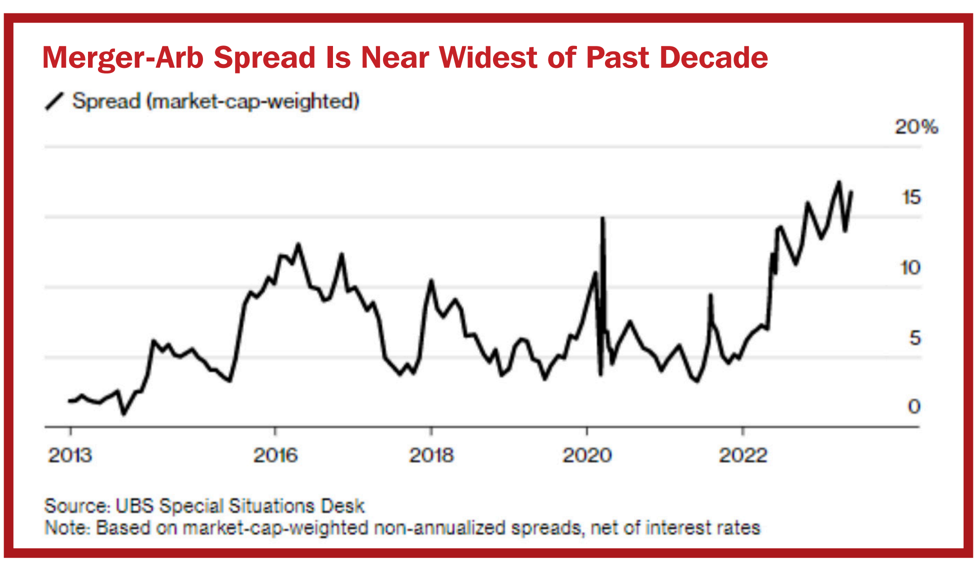
Activision (ATVI) / Microsoft (MSFT)

In early July, the Chairwoman's series of ill-founded lawsuits ran into the iron will of an independent Federal Judge in the Northern District of California, Jacqueline Corley, who ruled against the attempt by Khan's FTC to gain a preliminary injunction to stop the highly-publicized Activision (ATVI) / Microsoft (MSFT) merger. In Judge Corley's written opinion, she laid out numerous failures in the FTC's suit, that clearly illustrate why this case probably should have never been brought. Judge Corley's decision certainly went a long way towards reassuring my faith in our judicial system. However, it seems incredibly clear that the antitrust regulators, and some of the banking regulators, are more intent on imposing their political agendas, than by enforcing the actual laws they are sworn to uphold.

Roller Coaster Ride Causes Spread Reaction

Now, we did not own ATVI as of June 30, 2023. However, after Judge Corley's decision, the market realized Chair Khan might be a paper tiger, with a growl worse than her bite. And so the spreads improved on other merger deals, including our I-Robot and Horizon Therapeutics positions.

As a result of all this turmoil, merger spreads are as wide as they have been in the past decade. According to UBS' Special Situations Desk, for the last ten mergers that have been announced, as of May 28th of this year, the average arbitrage yield is 11.5%. That represents a 650-basis point premium to the yield on cash. (We define yield as a merger spread's annualized return. So, if the spread was 5%, and the deal was expected to close in six months, its yield would be 10%). Even mergers that are outside of Khan's bullseye — the small-cap, lower-anti-trust-risk deals that we scour the market for — offer yields generally ranging from 8% to 9%.



So in the near future, “The Khan Crisis” may end up becoming SilverPepper’s opportunities, as we aim to tread carefully and take advantage of the increasingly wide merger spreads available in the market. At the end of the day, we hope near-term turmoil proves rewarding for you, our long-term investors.

With respect,

Steve Gerbel

Portfolio Manager

SilverPepper Merger Arbitrage 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. 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 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.

Sources: “Lina Is Upending Wall Street’s Merger-Arbitrage Playbook,” Bloomberg News June 6, 2023.

Merger spread data, and the average arbitrage yield for the most recent ten merger deals period beginning May 14 through May 25, 2023 provided by Accelerate. Alpha Rank Merger Monitor, May 28, 2023.

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 9 out 28 for the since inception period 10/31/2013- 6/30/2023, 30 out of 37 funds for the five-year period ending 06/30/2023, ranked 16 out of the 37 funds for the three-year period ending 6/30/23 and 7 out of 37 funds for the trailing 1-year period ending 06/30/2023. 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,” (37 funds) with category start date on or before 06-30-2023 (37 funds) for funds with 3). Unique Share Class and Institutional (lowest-fee) Share Class (15), 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 (8 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). Within the Merger Arbitrage Peer Group, the SilverPepper Merger Arbitrage Fund Institutional Share class (SPAIX) was ranked 1 out of 4 funds for the since inception period 10/31/2013-06/30/2023, ranked 3 out of 6 funds for the five-year period ending 06/30/2023 and 2 out of 6 funds for the trailing 1-year period ending 06/30/2023. Source: Morningstar Direct. Past performance is not indicative of future performance.

Portfolio holdings are subject to change without notice and are not intended as a recommendation. As of 6-30-2023, I-Robot was 2.28% of net assets; Horizon Therapeutics was 6.30% of net assets. First Horizon, Toronto Dominion, Activision, Microsoft, Amazon and Amgen were 0.0% of net assets.

More ➤

Standard Deviation is a term used to indicate and quantify risk. Specifically, standard deviation indicates the volatility of a fund's total returns. In general, the higher the standard deviation, the greater the volatility of return. If a fund had a mean (average return) of 10%, and a standard deviation of 2%, you would expect the fund's returns to fall within 12% and 8%, 68% of the time. And 95% of the time, you would expect its returns to fall within 6% and 14%.

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

About SilverPepper LLC: SilverPepper specializes in offering the low correlation benefits of hedged investment strategies within the structure of a mutual fund, making them accessible "For The Rest Of Us." SilverPepper is headquartered in Highland Park, Illinois.

IMST Distributors, LLC