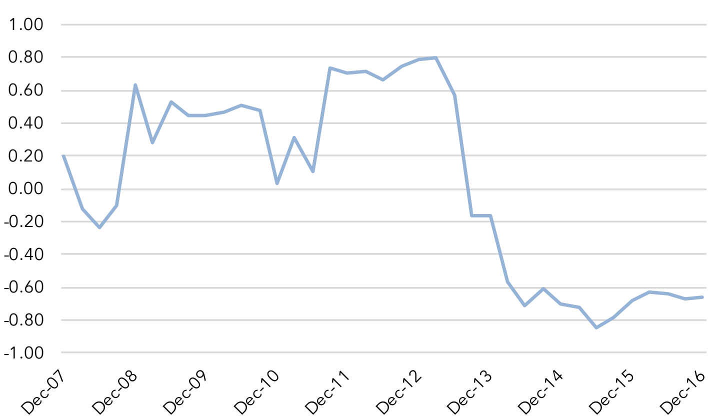
## Looking Ahead to 2017

As of December 31, Real Estate Investment Trusts ("REITs") were trading at a 6% discount to Net Asset Value ("NAV")[1], which compares to the 12% discount at which they were trading at the start of 2016. The recent increase in inflation expectations should increase rent projections, but also return hurdles, potentially causing an increase in capitalization rates (or 'cap rates'). If interest rates continue to creep up throughout 2017, we would expect to see some type of bump in cap rates – which could lead to REITs continuing to trade at a discount to NAV.

While we have been hoping that REITs would de-couple from interest rates for years now, it doesn't seem to be happening anytime soon. While most real estate professionals would say that interest rates are not even in the top three most important considerations when investing in commercial real estate, REIT correlations with interest rates have been stubbornly negative since 2012 as shown in Figure 1. A highly negative correlation implies that increases in interest rates were highly predictive of decreases in REIT prices, and decreases in interest rates were highly predictive of increases in REIT prices. In contrast, there were many years from 2007 to 2011 when the correlation was close to zero, or even positive!

**Figure 1: Rolling 8 Quarter Correlation of REITs vs. 10 Year Treasury Yield**




Source: Bloomberg and Chilton Capital. REITs (MSCI US REIT TR Index ("RMS")) and the 10 Yr Treasury (Bloomberg US Generic Goverment 10 Year Yield)

If rates rise significantly from levels seen at the end of December (10 year treasury stood at 2.4% as of 12/31/16), there would likely be negative implications for REIT prices in 2017. However, it could have a very positive long term effect due to higher growth and inflation expectations, as well as throttling back new construction significantly due to higher return hurdles. In other words, though it could produce some short term pain, a rise in interest rates would tend to extend the real estate cycle for at least a few more years.

If the economy goes back to the lukewarm scenario and investors look to long term treasuries as a flight to safety, new development could spike, thus bringing an end to the cycle. In response, REIT pricing may experience a short term boost. But, a fall in interest rates without a drop in rents would spur new development to levels we have not seen in this cycle. As is typical in real estate cycles of the past, the sudden delivery of too much real estate when the economy is not on a strong foothold may result in declining occupancy rates and lower rental income, signaling that the peak of the cycle has passed.

## Supply and Demand in Equilibrium…for Now

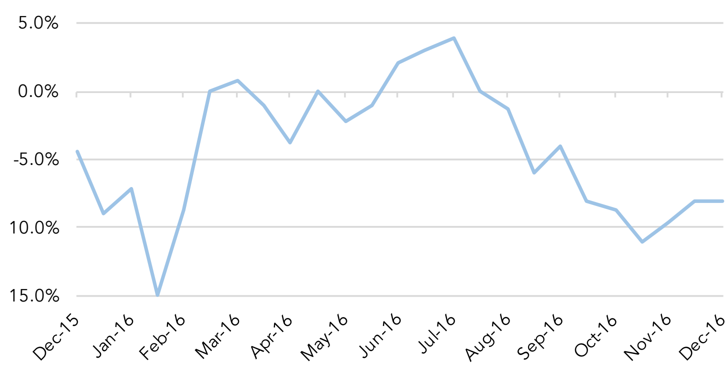
New supply is being built to meet demand for the first time in history. Despite REITs boasting all-time high occupancy, we witnessed a meaningful drop in new construction during 2016. While new construction never hit the long term average of 1.8% of all commercial real estate, it did creep above 1.5% and was trending well above 1.8% in a few sectors. However, over the past year, annualized construction starts dropped from 1.0 billion square feet (or sqft) to less than 900 million sqft, bringing new construction to only 1.2% of all commercial real estate.

Notably, new construction is less than 1% of existing space for the office, regional malls, and shopping center sectors. In constrast, new construction for the lodging, self-storage, industrial, and multifamily sectors are above 1.5%. If supply continues to stay in check only to meet demand, the environment for rent growth (albeit to varying degrees across sectors and geographic regions) should continue, thus extending the cycle further.

## Mergers & Acquisitions ("M&A")

There was a decrease from 15 announced public to public or public to private transactions in 2015 to only ten in 2016. While there was a decrease in the number of transactions, it could be argued that the potential for M&A helped to put a floor on prices. As shown in Figure 2, there were two periods when REITs traded at NAV discounts at or below 10%, but each period was extremely short.

**Figure 2: REIT Premium/Discount to NAV**




Source: ISI Research, as of 12/29/16

We believe that investors have made 10% a floor for the public to private arbitrage such that anything higher than a 10% discount would attract private equity to close the gap. With an NAV discount of ~6% going into 2017 and a record $225 billion in private equity dry powder to invest in real estate, according to Preqin as of September 30, the threat of M&A should continue to linger.

Liberty Street Funds

1: Source: Evercore ISI REIT Coverage Universe

**Fund Flows**

At first glance, 2016 appeared to be a strong year for positive fund flows into REIT exchange traded funds ("ETFs") and mutual funds, especially after 2015's year of net outflows. However, the final fund flows number would have been much higher if not for the last two months of the year. As mentioned previously, the year to date period ending October 31, 2016 had positive net funds flows of $21.6 billion. As of December 29, the 2016 net funds flows was only a positive $14.5 billion, reflecting outflows of $7.1 billion in the final two months of the year.

We believe that the large inflows in the months leading up to the Global Investment Classification Standards (or GICS) change in September and the quick reversal in the months following the change may reflect a short term trade that has now ended. Thus, despite the hype around this trade, the GICS change has not resulted in a significant increase in REIT holdings by long term institutional investors. In our Q3 2016 Commentary, we discussed that the short term money seemed to favor companies with high dividend yields and low earnings multiples. Looking into 2017 and assuming the shareholder base has re-stabilized, we believe that stock performance will be once again influenced by the tenets that are most important to our methodology: property quality, NAV, balance sheet strength, dividend growth potential, and management prowess.

**Conviction is Key**

We attribute our performance in the fund to both the top-down and bottom-up driven methodology, and the conviction in the process.

One recent example of conviction was our on-the-ground research of Houston-associated REITs. Despite outperforming in 2014 and 2015, the fund's relative performance was dragged down significantly by exposure to Eastgroup Properties (NYSE: EGP), Camden Property Trust (NYSE: CPT), and Cousins Properties (NYSE: CUZ), each of whom has more than 10% of its Net Operating Income (or NOI) from Houston. Instead of panicking, we added significantly to each of these positions throughout 2014 and 2015, eventually building a combined portfolio weight more than seven times the benchmark in these three companies as of December 31, 2015.

In 2016, EGP, CUZ, and CPT were three of our top nine drivers of relative performance using data through December 31, 2016. Additionally, we saw an opportunity to add a position in the 100% Houston office REIT Parkway Inc. (NYSE: PKY) at attractive prices based on further research. It was a contrarian view as, at the time, the company did not garner a single buy recommendation from Wall Street analysts, and media reports forecasted a dire picture for Houston office. The risk paid off sooner than anticipated as the stock went from $17 per share on November 14, 2016 to above $22 per share on December 30, 2016 serving as an example that being comfortable with the long term risk and reward at a particular price may be more important than trying to predict 'the bottom'.

**Sectors to Watch in 2017**

Going into 2017, we have several views that differ significantly from the benchmark. For the portfolio, the top three overweights are regional malls, office, and data centers/tech while the top three underweights are healthcare, triple net (leases), and industrial.

As of 12/31/2016, Healthcare and triple net represent a combined 20% position in the MSCI US REIT Index ("RMZ"), but 0% across the fund. Healthcare and triple net represent the two longest lease sectors in the REIT universe. As such, they had few triggers to pull to increase growth during inflationary periods, and thus consistently underperformed while interest rates rose. We believe that interest rates are more likely to stay where they are today (or rise) than to go back below 2%, thus driving our bias toward shorter lease sectors such as self storage, apartments, and lodging (all overweights in the fund, but not in top three due to potential supply issues). Industrial boasts excellent fundamentals, but we believe valuations have gotten ahead of themselves versus their historical norms and thus are waiting for a better entry point.

As previously discussed, Class A malls are thriving in the current environment. Despite the strong fundamentals, as of December 28, 2016, mall REITs still trade at the steepest NAV discount of any of the major sectors. Recent reports suggest that the 2016 holiday shopping season could have the best year over year growth since 2005 according to Customer Growth Partners. In addition, a survey released on December 27, 2016 reported that consumer confidence is the highest in fifteen years. If these trends continue, mall tenant sales per square feet ("sqft") may reaccelerate, driving up expectations for rent and occupancy increases.

Cell towers and data centers have been an over-weight in the strategy for years, but their valuation levels relative to other sectors have not been this cheap for quite some time. We do not see the ex-ponential data consumption increases going away anytime soon, however, which should drive REIT universe-leading cash flow and dividend growth.

Finally, our largest overweight is office, which had the largest increase in the Fund weighting during the year (over 700 basis points!). There isn't one reason in particular for the increase in exposure, as office has likely the highest variability of portfolio and balance sheet quality, as well as the most constituents of any sector in the index. We believe each of our portfolio office companies is undervalued in its own individual way, and 2017-2018 has to potential to showcase the growth potential of this sector which many perceive to be slow-moving.

**Tax Reform Wild Card**

Tax reform could have a significant effect on REIT dividends. In particular, the changes to personal income tax rates, corporate tax rates, business interest tax deductibility, and depreciation formulas as laid out in the House GOP Blueprint from June 2016 (endorsed by Speaker Paul Ryan and Ways and Means Committee Chairman Kevin Brady) could have an outsized impact.

In the document, the top personal income tax bracket is lowered to 33%, the Obamacare and Medicare tax is repealed, and capital gains are taxed at half of the personal rate. Each of these would have significant positive effects on the after-tax dividends and capital gains for REIT investors given that REIT dividends are historically comprised of

70% ordinary income and 20% long term capital gains (the other 10% is return of capital).

Significant changes to corporate tax rates, depreciation formulas, and business interest deduction could decrease the potential benefits of filing as a REIT. The document calls for the corporate tax rate to be lowered to 20%, the business interest deduction to be repealed, and for depreciation to be 100% in year one. Changes to the business interest deduction and depreciation could significantly increase GAAP Net Income, on which the 90% distribution rule for REITs is based. Any REIT that is paying dividends close to current GAAP Net Income could be forced to increase its dividend significantly in order to maintain its REIT status, potentially into an uncomfortable payout ratio. Concurrently, the reduction in the corporate tax rate may cause some REITs to consider dropping their REIT status in favor of the flexibility to payout less than 90% of GAAP Net Income and attain qualified dividend status which would lower the tax rate on dividends to half of the investor's top tax bracket rate.

**Grains of Salt**

Investing in stocks takes more than just a little humility, and we don't claim to have a crystal ball for the dizzying array of scenarios that may occur in any given 12 month period. However, we maintain conviction in our long term themes, and bottom-up theses.. We attribute this conviction to processes that have been honed over the sixty combined years of REIT experience on the Fund's team, and which we strive to improve each year.

**4Q 2016 Performance and Attribution**

The West Loop Realty Fund's (the "Fund") Institutional Share Class produced a total return of -1.48% for the fourth quarter of 2016, which outperformed the –2.96% for the MSCI US REIT Index over the same period. The largest positive contributors to relative stock performance were underweights to the healthcare and triple net sectors, as well as stock selection in the lodging sector. Detractors from relative performance included an overweight allocation to regional malls, and stock selection within the self storage and data center/tech sectors.

After the election in November, long term interest rates increased significantly and quickly to levels not seen since January. As we would have expected, the long lease, slow growth sectors such as triple net and healthcare underperformed the short lease sectors and the benchmark. We continue to believe these sectors will underperform in a rising interest rate environment as they have lower expected cash flow and dividend growth. Within the lodging sector, which was the top performing major sector in the fourth quarter, Host (NYSE: HST), Hersha (NYSE: HT), and Marriott (NYSE: MAR) all produced total returns of +19% or higher, which outperformed their peer average. In contrast to triple net and healthcare, lodging is the shortest lease sector and thus would be expected to outperform in a rising interest rate environment.

Regional malls continued to underperform the benchmark in the fourth quarter due to negative headlines surrounding major anchor tenants such as Macy's (NYSE: M) and Sears (NASDAQ: SHLD), as well as the accelerating growth of e-commerce. Despite what is estimated to be the best fourth quarter increase in retail sales in eleven years, the mall REITs could not overcome the negative headlines and trade at the widest discount to NAV as of December 31. If the economy is able to reaccelerate and we are indeed in a rising interest rate environment, we would expect class A regional malls to be a top performing sector. Within the self storage sector, Life Storage (NYSE: LSI) underperformed its peers due to its exposure to Texas market, particularly Houston, which has been labeled as a market with potential oversupply issues at a time when demand is decelerating. We believe LSI's discounted valuation already discounts slower near term growth due to such exposure and thus is positioned to outperform in 2017. Within the data center/tech sector, our investments in cell tower owners American Tower (NYSE: AMT) and Crown Castle (NYSE: CCI) underperformed the data center REITs. Notably, the Republican sweep in the election reignited fears of potential consolidation of the carriers, particularly the Sprint (NYSE: S) and T-Mobile (NASDAQ: TMUS) combination that was denied by the Obama administration in 2014. We believe the current stock prices already more than discount any potential loss of revenue from towers that share sites from both carriers and thus are trading below their intrinsic value.

**2016 Performance and Attribution**

For the full year 2016, the Fund's institutional share produced a total return of +8.02%, which compared to +8.60% for the MSCI US REIT Index. The largest positive contributors to relative stock performance were stock selection in the diversified and industrial sectors, as well as an overweight to office. Detractors from relative performance included an underweight allocation to triple net, an overweight allocation to regional malls, and stock selection within data centers/tech.

An overweight allocation to the office sector, especially positions in Kilroy Realty (NYSE: KRC), Alexandria Real Estate Equities (NYSE: ARE), and Cousins Properties (NYSE: CUZ), contributed to our relative performance. Our investment theses for these companies relied on dislocations between their public and private market valuations due to overreactions to external events. For Kilroy and Alexandria, it was concerns over a possible tech bubble and its impact on West Coast office markets (San Francisco in particular). However, we believed the concerns to be overblown. In contrast to the 2000 tech bubble, the supply and demand dynamics are much more favorable, and REITs with San Francisco exposure have been astute in minimizing balance sheet and development risk. For Cousins, investors had been concerned with the company's exposure to Houston and the impact low oil prices will have on office leasing fundamentals. To ease investor concerns and shrink the valuation gap, Cousins merged with Parkway Properties in 4Q 2016 and spun-off the combined portfolio's Houston assets into a separate company ("Parkway Inc." (NYSE: PKY)). Owning Armada Hoffler Properties (NYSE: AHH) contributed to our relative performance within the diversified sector. AHH is executing on its plan to recycle capital from slow growth assets into development and redevelopment projects, which we think will produce solid NAV and cash flow growth over the next few years. Owning Eastgroup Properties (NYSE: EGP) contributed to our relative performance within the industrial sector. EGP had been trading at a discount to NAV and peers, mainly due to its exposure to Houston (18% of NOI as of 3Q16). However, earnings results continue to surprise investors to the upside despite the slowdown in Houston. Additionally, the company's smaller, more infill focus should allow EGP to benefit from the growth in e-commerce, especially for 'last mile' deliveries.

An overweight allocation to the mall sector detracted from the fund's's relative performance. We continue to favor Class A mall REITs over Class B mall REITs within the sector. Class A malls that provide consumers with unique experiences and quality tenant lineups should continue to maintain sector leading occupancy and weather any competitive threats from the internet. Additionally, for Class A mall REITs, the possibility of getting back space from struggling tenants is viewed as an opportunity to upgrade the tenant mix at higher rents. An underweight allocation to the triple net sector (0% allocation) detracted from the fund's relative performance. The sector benefited in the beginning of the year due to a flight to safety from their long term leases to a diverse roster of solid credit tenants. However, similar to healthcare, triple net REITs are highly correlated to changes in long term interest rates and have underperformed over the past few months. We continue to prefer sectors with higher organic growth and better-located properties. Owning the tower REITs within the data center/tech sector detracted from our relative performance. Tower REITs look to be the beneficiaries of carriers deploying recently acquired spectrum, the major growth of mobile usage, and the expansion of small cell sites which are helping carriers meet insatiable demand in urban areas. However, November's election results stoked fears of potential consolidation of carriers, pulling down the tower REITs. We believe the pullback has more than accounted for any potential lost cash flow should a transaction occur. Data center REITs should continue to benefit from increased corporate data outsourcing, the growth of the 'cloud', and the need for speedy delivery of data.

**PERFORMANCE - Through 12/31/16**

| | Q4 2016 | YTD | 1 Year | 3 Year | Ann ITD* |
|---|---|---|---|---|---|
| REIAX | -1.53% | 7.79% | 7.79% | 13.59% | 13.59% |
| REIAX w/Load | -7.17% | 1.63% | 1.63% | 11.37% | 11.37% |
| REICX | -1.76% | 7.01% | 7.01% | 12.74% | 12.74% |
| REIIX | -1.48% | 8.02% | 8.02% | 13.84% | 13.84% |
| MSCI US REIT Index | -2.96% | 8.60% | 8.60% | 13.23% | 13.23% |

***Performance data quoted represents past performance and is no guarantee of future results.*** *Total return figures include the reinvestment of dividends and capital gains. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. For the most recent month end performance, please call (800) 207-7108. Returns showing less than one year are cumulative. *ITD represents inception-to-date data. The Fund's inception date was 12/31/2013. The gross operating expense ratio for the Class A, C, and Institutional Shares are 1.82%, 2.57% and 1.57%, respectively. The net operating expenses after fee waiver and/or expense reimbursements are 1.50%, 2.25% and 1.25% for the Class A, C, and Institutional Shares, respectively. The contractual agreement between the Fund and the Advisor for fee waiver and/or expense reimbursement is in effect until April 30, 2017. Without the contractual agreement, performance would have been lower. Performance results with load reflect the deduction for Class A Shares of the 5.75% maximum front end sales charge. Class C Shares are subject to a contingent deferred sales charge of 1.00% when redeemed within 12 months of purchase. Performance presented without the load would be lower if this charge was reflected.* ***Fund performance may be subject to substantial short-term changes.***

**As of December 31, 2016, the Fund's Top 10 holdings were as follows: Simon Property Group (SPG): 8.43%, Life Storage (LSI) 5.85%, Boston Properties (BXP) 5.52%, Essex Property Trust (ESS) 4.70%, AvalonBay Communities (AVB) 4.47%, General Growth Properties (GGP) 4.04%, Vornado Realty Trust (VNO) 4.00%, American Tower Corporation (AMT) 3.84%, Camden Property Trust (CPT) 3.82%, Hersha Hospitality Trust (HT) 3.69%**

**RISK AND OTHER DISCLOSURES:**

***Before investing you should carefully consider the West Loop Realty Fund's investment objectives, risks, charges and expenses. This and other information about the Fund is in the prospectus and summary prospectus, a copy of which may be obtained by calling 800-207-7108 or by visiting the Fund's website at www.libertystreetfunds.com. Please read the Fund's prospectus or summary prospectus carefully before investing.***

An investment in the West Loop Realty Fund is subject to risk, including the possible loss of principal amount invested and including, but not limited to, the following risks, which are more fully described in the prospectus:

- The Fund invests in Real Estate Investment Trusts (REITs), which involve additional risks compared to those from investments in common stock. REITs are dependent upon management skills; generally may not be diversified; and are subject to heavy cash flow dependency, defaults by borrowers, self-liquidation, and tax risks.
- Investments in REITs involve risks including, but not limited to, market risk, interest rate risk, equity risk and risks related to the real estate market.
- The Fund will be closely linked to the performance of the real estate markets. The Real Estate industry is subject to certain market risks such as property revaluations, interest rate fluctuations, rental rate fluctuations and operating expenses, increasing vacancies, rising construction costs and potential modifications to government regulations.
- REITs are subject to declines in the value of real estate as it relates to general and local economic conditions and decreases in property revenues. Continued disruptions in the financial markets and deteriorating economic conditions could adversely affect the value of the Fund's investments.
- As a non-diversified fund, the Fund may focus its assets in the securities of fewer issuers, which exposes the Fund to greater market risk than if its assets were diversified among a greater number of issuers.
- The Fund's investments will be concentrated in the real estate sector. The focus of the Fund's portfolio on a specific sector may present more risks than if the portfolio were broadly diversified over numerous sectors.
- Foreign investment risk. These risks include currency fluctuations, economic or financial instability, lack of timely or reliable financial information or unfavorable political or legal developments. Foreign companies are generally subject to different legal and accounting standards than U.S. companies.
- The Fund invests in small and mid-cap real estate companies, which may involve less trading and, therefore, a larger impact on a stock's price than customarily associated with larger, more established company stocks.
- In order to qualify for the favorable tax treatment generally available to regulated investment companies, the Fund must satisfy certain diversification requirements. The Fund's strategy of investing in a relatively small number of securities may cause it inadvertently to fail to satisfy the diversification requirements. If the Fund were to fail to qualify as a regulated investment company, it would be taxed in the same manner as an ordinary corporation, and distributions to its shareholders would not be deductible by the Fund in computing its taxable income.

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**The Fund may not be suitable for all investors.** We encourage you to consult with appropriate financial professionals before considering an investment in the Fund.

The MSCI US REIT Index is a free float-adjusted market capitalization index that is comprised of equity REITs. With 148 constituents, it represents about 99% of the US REIT universe and securities are classified in the Equity REITs Industry (under the Real Estate sector) according to the Global Industry Classification Standard (GICS®). It however excludes Mortgage REIT and selected Specialized REITs. The RMZ index symbol refers to the price-return basis of the MSCI US REIT Index while the RMS index symbol refers to the total-return basis. The US Generic Government 10 Year Yield ("USGG10YR") is a measurement of the yield to maturity of the U.S. Government issued 10 Year note. 1 bps (basis point) is equal to 0.01%.

One cannot invest directly in an invest.

The views in this material are intended to assist readers in understanding certain investment methodology and do not constitute investment advice. The views in this material were those of the Fund's Sub-advisor as of the date written and may not reflect its views on the date this material is first disseminated or any time thereafter.

Liberty Street Advisors, Inc. is the advisor to the Fund. The Fund is part of the Liberty Street family of funds within the series of Investment Managers Series Trust.

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