

ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q1 2019



ABSOLUTE FUNDS



Eric Hage is the Chief Investment Officer at Mohican Financial Management and Portfolio Manager of the Absolute Convertible Arbitrage Fund (ARBIX)

We believe the market remains in a sweet spot for the Fund's convertible arbitrage strategy. The Fund's performance speaks for itself. ARBIX returned +2.8% in the first quarter. The annualized return over the last three years is +7.7%. The Fund has been positive 36 out of the last 38 months. Fund volatility has been extremely low and beta to traditional stocks and bonds has also been close to zero (please see fact sheet for detailed figures).

The Fund entered 2019 with some of the most attractive secondary market valuations for convertible bonds that we have seen in years. These valuations reflected wild swings in asset prices in 2018. The Fund was well positioned to capitalize on the inefficiencies that manifested during those swings.

One of the reasons for the Fund's consistent performance is that it utilizes a total return approach across credit, yield, and volatility. Over time there has been a natural offset between these three areas that does not exist in more traditional bond markets because in traditional bond markets, volatility isn't a specific factor. For example, as convertible prices increased during the first quarter of 2019 and our equity hedges got heavier, the Fund's portfolio inherently became more sensitive to future moves in equity volatility and less sensitive to both credit moves and interest rates. Additionally, through security selection, we can actively bias the portfolio toward the area that may be cheap when another is more expensive. The portfolio sensitivity weights naturally move toward buying low (now volatility) and selling high (now credit) and vice versa when these moves reverse.

"...The [ARBIX] annualized return over the last three years is +7.7%. The Fund has been positive 36 out of the last 38 months.

Fund volatility has been extremely low and beta to traditional stocks and bonds has also been close to zero..."

Many investment-grade and high-yield corporate bonds have rallied this year in response to the Fed's dovish pivot in the first quarter. In these markets, tightening credit spreads and low overall yields may translate to lower returns going forward. While both investment-grade and high-yield markets have witnessed recent up and down swings, convertible arbitrage has been more consistent and less volatile. Furthermore, whereas high yield credit spreads are well below historical averages, we would characterize the convert universe as "moderately cheap."

Attractive new issues continue to come to market. Robust issuance is important to maintaining healthy valuations and a large variety of arbitrage opportunities. 2018 was an exceptionally strong year for convert issuance and the new issue market continues to exhibit signs of strength with 24 new deals raising \$11.9B in proceeds during Q1 2019. Once again, non-rated, small and mid-cap companies dominated issuance in the first quarter, which fits precisely with our focused approach on that inefficient part of the market.

As a reminder to our investors, we have been managing this Fund since 2002. During those 17 years we've witnessed many different types of markets with varying degrees of opportunity. While always keeping an eye on risk, we are constantly adapting our approach to best match the given opportunity. The potential benefits to the strategy and Fund are well established – moderate returns with low volatility and low beta to traditional stocks and bonds. As always, this remains our focus for the Fund.

Quarter-End Performance for ARBIX: As of 3/31/19, the 1 year, 5 year and 10 year annualized performance was 3.95%, 3.79% and 7.38% respectively. Performance data quoted represents past performance and is no guarantee of future results. 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 the original cost. To obtain performance information current to the most recent month-end, call the Fund at 888-99-ABSOLUTE. Returns include the reinvestment of dividends and capital gains. Some of the Fund's fees were waived or expenses reimbursed; otherwise, returns would have been lower.

As stated in the prospectus, the Absolute Convertible Arbitrage Fund's Total Annual Operating Expense ratio (gross) for Institutional Shares is 1.75%. Absolute Investment Advisers LLC, the Fund's Adviser, has contractually agreed to waive its fee and/or reimburse Fund expenses to limit Total Annual Fund Operating Expenses to 1.60% through August 1, 2019 (the "Expense Cap"). This Expense Cap may only be raised or eliminated with the consent of the Board of Trustees.

DEFINITIONS: Beta is the measure of a fund's relative volatility as compared to the S&P 500 Index which by definition 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.

HEDGE FUND CONVERSION - In August 2017, a hedge fund managed by Mohican Financial Management LLC reorganized into the Fund. The Fund's performance for periods prior to the commencement of operations is that of the hedge fund and is based on calculations that are different from the standardized method of calculations adopted by the SEC. The performance of the hedge fund was calculated net of the hedge fund's fees and expenses. The performance of the hedge fund is not the performance of the Fund, has not been restated to reflect the fees, estimated expenses and fee waivers and/or expense limitations of the Fund, and is not necessarily indicative of the Fund's future performance. If the performance of the hedge fund had been restated to reflect the applicable fees and expenses of the Fund, the performance may have been lower. The hedge fund was not registered under the Investment Company Act of 1940 ("1940 Act") and was not subject to certain investment limitations, diversification requirements and other restrictions imposed by the 1940 Act and the Internal Revenue Code of 1986, which, if applicable, may have adversely affected its performance.

Past performance does not guarantee future results. The Fund's net asset value and investment return will fluctuate based upon changes in the value of its portfolio securities. There is no assurance that the Fund will achieve its investment objective, and an investment in the Fund is not by itself a complete or balanced investment program. For a complete description of the Fund's principal investment risks please refer to the prospectus.

Asset allocation decisions may not always be correct and may adversely affect Fund performance. The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on a convertible security's investment value. Debt securities have interest rate, inflation and credit risks and are subject to prepayment and default risk. High yield and junk securities involve greater risk and tend to be more sensitive to economic conditions and credit risk. Short sales may be considered speculative and it may be difficult to purchase securities to meet delivery obligations. The Fund may leverage transactions which include selling securities short as well as borrowing for other than temporary or emergency purposes. Leverage creates the risk of magnified capital losses. Diversification does not prevent loss or enhance returns. Foreign investments present additional risk due to currency fluctuations, economic and political factors, govern-

ment regulations, differences in accounting standards and other factors. Investments in emerging markets involve even greater risks. Small, mid and large cap stocks are subject to substantial risks such as market, business, size volatility, management experience, product diversification, financial resource, competitive strength, liquidity, and potential to fall out of favor that may cause their prices to fluctuate over time, sometimes rapidly and unpredictably. The Fund is actively managed and may experience high turnover. This may cause higher fees, expenses and taxes, which could detract from Fund performance.

These views are subject to change at any time based on market and other conditions, and Absolute Investment Advisers disclaims any responsibility to update such views. No forecasts can be guaranteed. These views may not be relied upon as investment advice or as an indication of trading intent on behalf of any Absolute Investment Advised investment product.

Investors should carefully consider the Fund's investments objectives, risks, charges and expenses before investing. This and other information is in the prospectus, a copy of which may be obtained by calling (888) 992-2765 or visiting the Fund's web site: www.absoluteadvisers.com. Please read the prospectus carefully before you invest.

Three Canal Plaza, Suite 600, Portland, Maine 04101
(888) 99-ABSOLUTE or (888) 992-2765

www.absoluteadvisers.com

Distributor: Foreside Fund Services, LLC

SKU: ARB-COMM-Q4119

 **ABSOLUTE**
ABSOLUTE CONVERTIBLE ARBITRAGE FUND

Absolute Convertible Arbitrage Fund, Absolute Investment Advisers and their logos are service marks of Absolute Investment Advisers LLC