ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q1 2020

ABSOLUTE FUNDS

The last sentence of our 4Q 2019 commentary ends with the statement "....we will continue to stay extremely focused, hedged and disciplined with capital preservation always our first priority."

The economic shutdown, brought on by the Covid-19 pandemic, has wreaked havoc on investments across the board. As of the end of the 1Q 2020, the Absolute Convertible Arbitrage Fund (ARBIX) was down -2.18% Year to Date (YTD) after gaining +6.38% in 2019. The Fund has held up very well relative to many equity, fixed income and alternative strategies. Going forward, Fund performance has the potential to benefit a great deal from the recent doubling of average convertible bond credit spreads. The current health crisis, and resulting economic crisis, is a stark reminder that risk and reward need to be equally accounted for at all times. It is also a reminder that capital preservation should never be ignored because it is the key, underappreciated, factor in accumulating wealth over the long term.

The last few weeks have been hectic, to say the least. No time period of market turmoil is exactly like a previous one, but there is an accumulation of wisdom gained from going through past experiences. Our team has a combined 60+ years of convertible bond experience, going back to 1989. In other words, and please forgive the idiom, *"This ain't our first rodeo."* But it is a new bronc.

Early in my career, I learned from great people at major sell-side firms and traded a large proprietary hedged convertibles book. I also covered long only and hedged convertible investors, gaining valuable knowledge of their decision processes in buying and selling convertible securities. During my sell-side career, I experienced trading convertibles in the aftermath of the Savings and Loan Crisis, The Gulf War, The 1994 interest rate spike, The Russian Financial crisis, the collapse of Long-Term Capital Management, the Dot-Com bubble, Enron, and last, but not least, 9/11.

Our buy-side experience began in 2002 when our fund opened. Since then, we have endured additional periods of market turmoil. Most notably, we survived the Great Financial Crisis of 2008 when many others in our business did not. Not only did we survive 2008, but the portfolio reached its high water mark by May of 2009 and delivered 21.5% cumulative returns over 2008 and 2009 (full years). Since 2009, we have experienced further periods of market turmoil such as the liquidity crisis caused by the oil price declines in 2014/2015 and the subsequent 2016 recovery. None of the past events compares directly to what is happening now, but there are very few managers who have managed convertible arbitrage through all of these events.

We are all in uncharted waters working very hard to learn something about health we never expected. From a macro perspective, we have seen enough to know that there is a lot we don't know, and we don't pretend to be any smarter than anyone else in making macro projections. From a micro perspective, we continue to feel very strongly about our specific convertible arbitrage experience. We are extremely focused and up to date on critical specific developments for each one of our company investments and their outstanding convertible securities.

It is not in our nature to take shots or time markets. Despite my reference to rodeo above, we are not Cowboys. Actually, we are life long, die hard, Buffalo Bills fans so we know how to endure!

Fortunately, convertible arbitrage does not require a gambling mentality. In fact, it is quite the opposite. A few years after the Great Financial Crisis, I wrote a piece featured in *BarclayHedge* titled "Convertible Arbitrage Outlook." (Google it) The essence of the piece is that our convertible arbitrage strategy does not require market forecasting or timing, but instead works because convertible securities must go to their fair value in a fairly short, defined, time-frame. It is a lower risk, buy and hold strategy that carries much less uncertainty than other "hedged strategies." A gradual return to fair value is precisely the opportunity that lies ahead.

In the span of a month, we have seen our average convertible bond credit spreads double from approximately 450 over treasuries to about 900 over treasuries. In addition, the average cheapness of our portfolio has gone from about 1% undervalued to 4% undervalued. Therefore, our annualized return potential over the next few years may have doubled

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in a very short time. And again, our return potential does not rely on timing or gambling or forecasting market direction. It simply relies in large part to us doing our job and staying hedged, as always.

We will continue to stay extremely focused, grind hard and pick away at hugely undervalued convertibles. We will attempt to control risk by staying liquid and maintaining a prudent cash position. Our trading experience is invaluable. We will continue to stay very well diversified across many individual companies and industries. We will continue to stay hedged and true to what we do.

Nobody knows how all this will play out or how long it will go on. Rest assured, we have no idea either and we are not employing any personal thoughts or biases into our investment decisions.

There is no short cut to what we do. We take securities, one by one, appraise the credit, and compare the trading price to its intrinsic value. If we like what we see, we buy the convertible and short the underlying stock of the same company and patiently wait for fair value to return. We do this company by company, security by security, hedge by hedge. This is our discipline, designed to deliver consistent, above average, fixed income returns while attempting to protect on the downside. Capital preservation + steady positive returns = wealth accumulation. We have been doing it in this fund since 2002.

More importantly, everyone please stay safe and healthy.

All the best to you and your loved ones.

Eric

Eric C. Hage
Portfolio Manager
Absolute Convertible Arbitrage Fund (ARBIX)

Quarter-End Performance for ARBIX: As of 3/31/20, the 1 year, 5 year and 10 year annualized performance for the Absolute Convertible Arbitrage Fund was 1.18% , 3.80% and 4.46% 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 1.99% and the net expense ratio is 1.74% through August 1, 2021. However, 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 1.40% through August 1, 2021 (the "Expense Cap") and to 1.20% when the Fund reaches $250 million in assets under management. This Expense Cap, which excludes all taxes, interest, portfolio transaction expenses, dividend and interest expenses on short sales, acquired fund fees and expenses, broker charges, proxy expenses and extraordinary expenses, may only be raised or eliminated with the consent of the Board of Trustees.

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, government 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.

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