ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q3 2017

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PORTFOLIO COMMENTARY : October 2017

Market conditions affecting convertible arbitrage returns in the third quarter were generally a continuation of the same circumstances experienced in the previous two quarters. Tighter credit spreads were supportive of convertible prices as the B of A Merrill Lynch US High Yield Option-Adjusted Spread tightened from 377 to 356 basis points. Implied convertible credit spreads followed high yield spreads and compressed about the same degree as our portfolio of small and mid-cap convertibles moved toward 500 basis points, on average.

The lack of equity volatility continued to provide a headwind for convertible valuations with the negative move in volatility countering the supportive move in credit. 30 day historical volatility for the Russell 2000 dropped from 12.75 to 11.50 by quarter end while the VIX fell from 11.18 to 9.51. Equity volatility is now approaching multi-year lows making short-term delta trading challenging.

One interesting market development was the gradual move down followed by a quick rebound in interest rates during the quarter. The five year Treasury bond, the risk free rate close to our average bond put/maturity of 4.1 years, dropped from 1.89% to 1.63% and then suddenly surged to 1.94% by quarter end as increased uncertainty over future moves by the Federal Reserve increased volatility. If interest rates do move higher from here, the US convertible new issue market will likely become even more active as companies seek to save on fixed income coupon expenses.

"Going forward, if volatility continues to remain depressed and credit spreads remain at current levels, our baseline expected return - the average implied credit spread added to the risk free rate – will likely remain fairly constant."

The US convertible new issue market continues to be healthy and supportive for convertible arbitrage. Through the third quarter, $33 billion of convertible paper has come to market which already exceeds the total for all of 2016. Most important for our niche strategy, the supply of new issues continues to be dominated by small and mid-cap companies. Of the 88 new issues priced year to date, 86% of the deals have come from small and mid-cap companies providing us an ample diverse supply of merchandise to consider for the portfolio.

Going forward, if volatility continues to remain depressed and credit spreads remain at current levels, our baseline expected return - the average implied credit spread added to the risk free rate – will likely remain fairly constant. Additional profit opportunities will depend on a robust new issue market and our thorough bottom-up research leading to successful individual security selections. As always, we will continuously monitor the risk/reward tradeoff for each name in our portfolio, maintain our market neutral equity hedges, and continuously seek to maximize our use of investor capital.

See Reverse for Definitions & Risks

***Definitions:** The BofA Merrill Lynch Option-Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond's OAS, weighted by market capitalization. The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States

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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