

# ABSOLUTE CONVERTIBLE ARBITRAGE FUND [ ARBIX ]

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FUND INTRODUCTION

## PRINCIPAL INVESTMENT RISKS

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.

***Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. 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 website at [www.absoluteadvisers.com](http://www.absoluteadvisers.com). Please read the prospectus carefully before you invest.***

Foreside Fund Services, LLC, distributor.



## Standardized Performance

### **Quarter-End Performance for ARBIX:**

As of 9/30/20, the 1 year, 5 year and 10 year annualized performance for the Absolute Convertible Arbitrage Fund was 7.09%, 5.46% and 4.74% respectively.

The returns presented for the Fund prior to August 14, 2017 reflect the performance of the Mohican VCA Fund, LP, a privately offered hedge fund (the "Predecessor Fund"). The Fund has adopted the historical performance of the Predecessor Fund as the result of a reorganization in which the Fund acquired all the assets, subject to liabilities, of the Predecessor Fund, effective as of the close of business on August 14, 2017.

*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.*

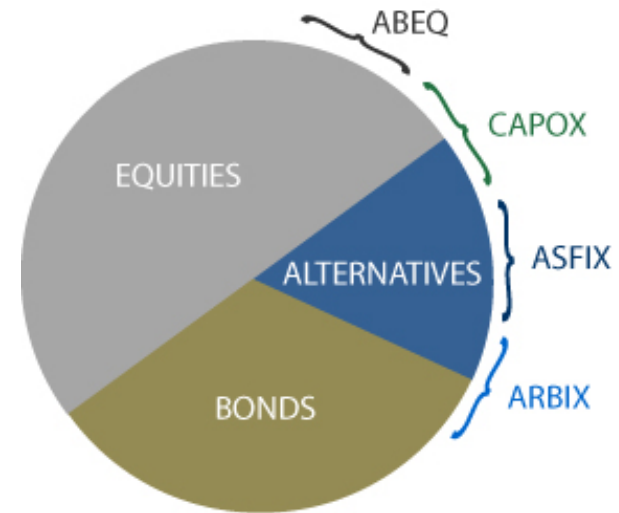
*As stated in the prospectus, the Absolute Convertible Arbitrage Fund's Total Annual Operating Expense ratio (gross) for Institutional Shares is 1.67% and the net expense ratio is 1.49% through August 1, 2021. However, Absolute Investment Advisers LLC, the Fund's Adviser, has contractually agreed to 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.*

Absolute Investment Advisers LLC was formed in 2004 with the goal of helping disciplined investors diversify portfolios and manage risk. Absolute is a small, independent firm whose founders come from various parts of the hedge fund, mutual fund and financial advisory businesses.

Absolute’s investment philosophy centers on a belief that long-term risk-adjusted performance is best achieved by utilizing independent money managers who focus on preservation of capital and asymmetric return opportunities.

Absolute manages three open-ended mutual funds and one ETF:

- Absolute Strategies Fund (ASFIX)
- Absolute Convertible Arbitrage Fund (ARBIX)
- Absolute Capital Opportunities Fund (CAPOX)
- Absolute Core Strategy ETF (ABEQ)



Hypothetical asset allocation including the ABSOLUTE FUNDS



The Absolute Core Strategy ETF (ABEQ) is distributed by Northern Lights Distributors, LLC. Northern Lights Distributors, LLC and Foreside Fund Services, LLC are not affiliated

## MOHICAN FINANCIAL MANAGEMENT: Sub-Adviser

### ***PORTFOLIO MANAGEMENT:***

#### ***Eric Hage - Mohican Financial Management, LLC***

2002- Present, Mohican Financial Management, Chief Investment Officer

1999-2002, Salomon Smith Barney, Director of Convertible Arbitrage

1994-1999, Salomon Smith Barney, Institutional Trader of Convertible Securities

1991-1994, Bear Stearns, Managing Director & Co-Head of Sales of Convertible Securities

1989-1991, Smith Barney, Assistant Trader of Convertible Securities

Columbia, University Business School, MBA, Cornell University, B.S. in Economics

#### ***Daniel Hage - Mohican Financial Management, LLC***

2002- Present, Mohican Financial Management, Senior Trader

2000-2002, CIBC World Markets, Sales Manager of Convertible Securities

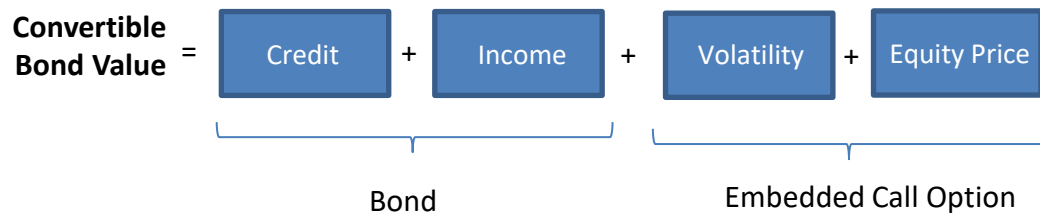
1998-2000, Fahnestock, Convertible Bond Broker

1995-1997, Murphy & Durieu, International & Domestic Convertible Bond Broker

University of Albany, MBA, LeMoyne College, B.S. in Business Administration

## What are Convertible Bonds?

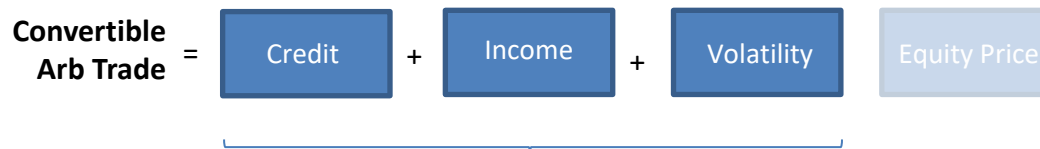
- Corporate bond with additional feature to “convert” the bond into equity at or above a predetermined price
- Often viewed as a bond with embedded call option on the company’s stock



*Long-only convertible bonds tend to have high correlation to underlying equity prices*

## What is Convertible Arbitrage?

- The most common type of convertible arbitrage trade is owning a convertible bond and shorting a commensurate amount of that company’s stock to hedge out equity sensitivity (“delta hedging”). This provides some sensitivity to **credit** and **income** with the ability to trade around **volatility**.



*The arbitrage process can isolate the credit of companies often not available in straight bonds*

DRIVERS OF PERFORMANCE

**Yield on Bond**

**Equity Volatility**

**Price Appreciation of Bond**

**Trading Around Positions**

**Interest on Short Balance**

**Special Situations**

## DIFFERENTIATORS

1. **Convertible Arbitrage only**
  - not combined with other strategies
2. **Focus on Small & Mid-Cap Issues**
  - more potential to be mis-priced than larger issues
  - (see more detail on page 9)
3. **Versatile across Credit, Income, and Volatility factors**
  - balanced approach to pursue value over course of cycle
4. **17 year track record**
  - experienced across a variety of market environments
5. **Experience Managing Convert Arb in a Mutual Fund**
  - easy to use vehicle
  - sub-adviser, Mohican Financial, has managed convert arb in a mutual fund since 2007



**Portfolio emphasizes opportunity in U.S. small & mid-cap companies**

- a. The convertible bond is often the only outstanding debt of these companies – senior security of capital structure
- b. Clean balance sheets and straightforward business models
- c. High degree of static carry due to higher coupons
- d. Few benchmarks to guide pricing decisions = more subjective valuations & wider spreads provides opportunity for a manager to add value

**Global Convertibles Market**



Source: Oaktree as of August 2020

**US Convertibles Market**



Source: Bank of America as of 8/31/20

**US Convertibles Market  
by Number of Issues**



Source: Barclays as of 12/31/19



*Data for the size of the global and domestic convertible bond market (and how it breaks down by market cap) is made available by different sources at different times throughout the year. All will be updated with a standardized time frame at year end.*

ANNUAL PERFORMANCE

Annual Returns as of December 31, 2019

*2002	3.86%
2003	15.09%
2004	2.87%
2005	0.99%
2006	19.14%
2007	7.33%
2008	-19.62%
2009	51.12%
2010	10.64%
2011	3.87%
2012	3.67%
2013	6.39%
2014	0.49%
2015	-0.40%
2016	10.44%
2017	5.77%
2018	2.07%
2019	6.38%

2008 / 2009 Explained

ARBIX performance over draw-down and recovery period relative to a variety other things (broad categories) people may have been invested in.

CUMULATIVE PERFORMANCE

Absolute Convertible Arbitrage Fund (ARBIX)	+ 21.47%
Bonds: Barclays Aggregate Bond Index	+ 11.48%
High Yield: iBoxx High Yield Bond Index	+ 9.97%
Equities: S&P 500 Index	- 20.32%
Hedge Funds: HFRX Global Hedge Fund Index	- 12.97%

*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.*

\*Fund inception was 10/1/2002. See Appendix for annualized performance and definitions of referenced indexes.



STATISTICS & PORTFOLIO COMPOSITION

RETURN STATISTICS

ARBIX & Relevant Bond Categories:	Annualized Since Inception	Annualized Since MF Conversion
ARBIX	6.84%	5.33%
HFRX Fixed Income Convert Arb Index	0.07%	4.85%
Barclays Aggregate Index	4.40%	5.04%
IBoxx High Yield Index	6.95%	4.07%

ARBIX PERFORMANCE STATISTICS

ARBIX Data:	Since Inception	Since MF Conversion
Beta to S&P 500 Index	0.15	0.08
Beta to Barclays Aggregate Index	0.11	0.21
Standard Deviation	5.1%	2.3%
Sharpe Ratio	1.08	1.62
	Since Inception	Since MF Conversion
Up Months	79%	87%
Down Months	21%	11%

Data as of 9/30/2020

Fund inception was 10/1/2002

Conversion to a mutual fund: 8/14/2017

\*See Appendix for annualized performance of referenced indexes

PORTFOLIO COMPOSITION

Long Market Value	94%
Short Market Value	-56%
Leverage	None

Number of Trades (paired positions) 109

BY ISSUER SIZE

Small-Cap	42
Mid-Cap	43
Large-Cap	24

Portfolio Exposure is Diversified Across 57 Industries

5 LARGEST

Computer Program & Software	17%
Computer Data & Process	4%
Data Processing Services	4%
Business Services	5%
Pharmaceutical Preparations	4%

Exposure by Geography

100%  
US Listed

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High levels of volatility caused by global pandemics is uncommon. There is no guarantee what the market will do in the future.

Performance in Rising Rate Environments (10 year US Treasury)

RECENT:	9/8/2017 to 10/8/2018
<b>YIELD INCREASE (BPS):</b>	117 bps
<b>BARCLAYS AGG INDEX PERFORMANCE:</b>	-2.88%
<b>ARBIX PERFORMANCE:</b>	3.82%

HISTORICAL:	June 2003 to June 2004	July 2005 to June 2006	Dec 2008 to June 2009	Oct 2010 to Feb 2011	July 2012 to Dec 2013	Jul 2016 to Dec 2016
<b>YIELD INCREASE (BPS):</b>	127 bps	113 bps	128 bps	90 bps	153 bps	96 bps
<b>BARCLAYS AGG INDEX PERFORMANCE:</b>	0.12%	-0.81%	1.90%	-0.93%	-1.62%	-2.53%
<b>ARBIX PERFORMANCE:</b>	7.21%	15.47%	30.33%	3.57%	7.73%	6.26%

Data Through 12/31/18. Past performance is not indicative of future results  
bps = Basis Points. 1 basis point = 1/100<sup>th</sup> of a percent

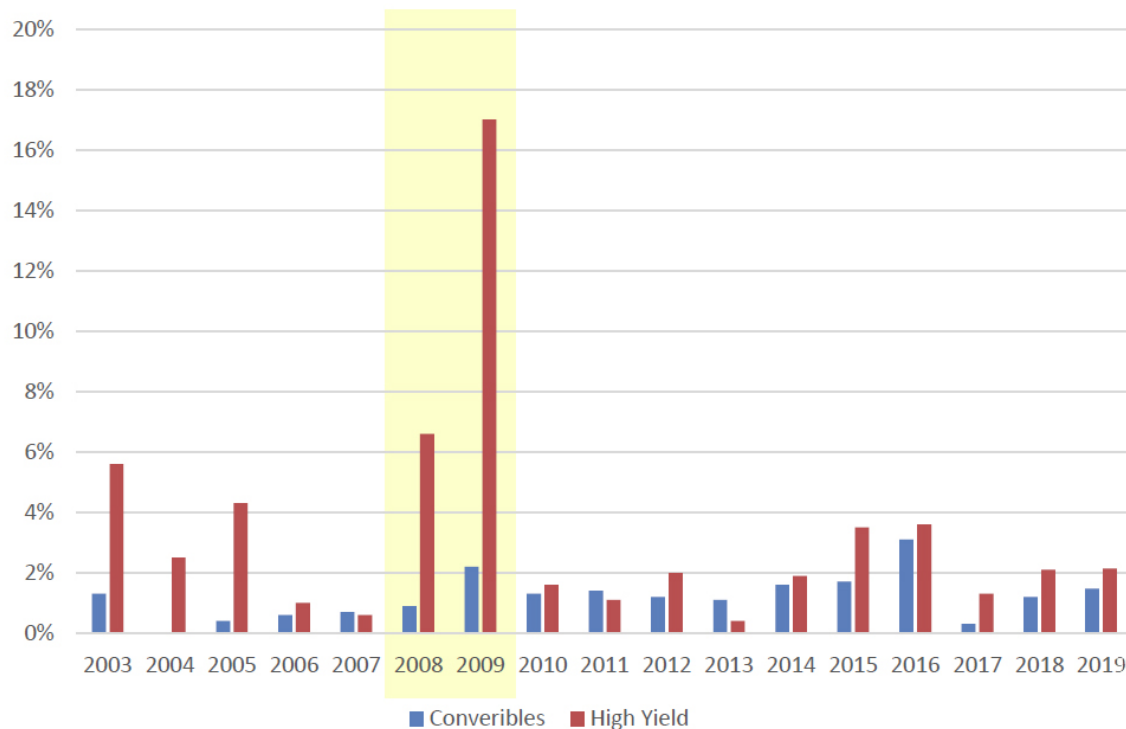
Why has ARBIX sensitivity to interest rate rises been so low?

1. The portfolio tends to have bonds with relatively short times to maturity
2. The portfolio is focused on small & mid-cap bonds, not as sensitive to broader markets as larger issues
3. At times, rising rates may signal general strength in credit, compressing spreads
4. The portfolio often contains trades designed to isolate under-valued volatility
5. When interest rates rise, interest on short balance goes up
6. Rising interest rates can increase value of embedded option in convertible bonds

# APPENDIX

## Default Rates - US Convertible Bonds vs. High Yield

(2003 – 2019, Represented by U.S. Convertible Bonds and Bloomberg Barclay's High Yield Index)



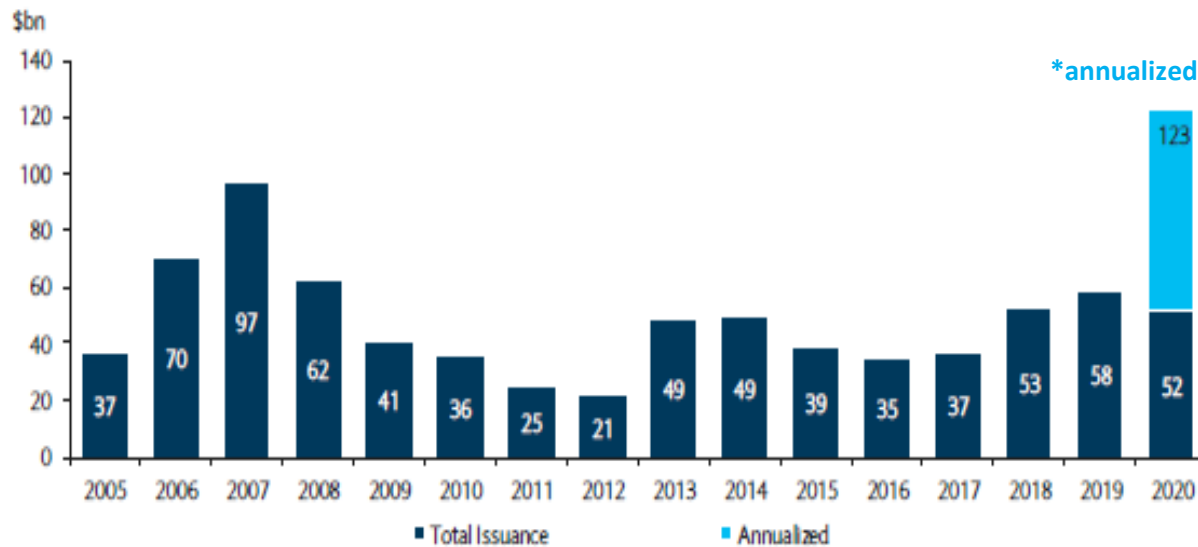
Default rates for convertibles have been:

- a. historically low
- b. very low in recent years
- c. lower than high yield (see 2008 & 2009)

Source: Barclays Equity Research, using data from Barclays and Moody's as of December 12, 2019, the most recent data available

## Convertible Bond Issuance

FIGURE 4  
Annualized 2020 U.S. Convertibles Issuance on Track to Breach 2007 Record



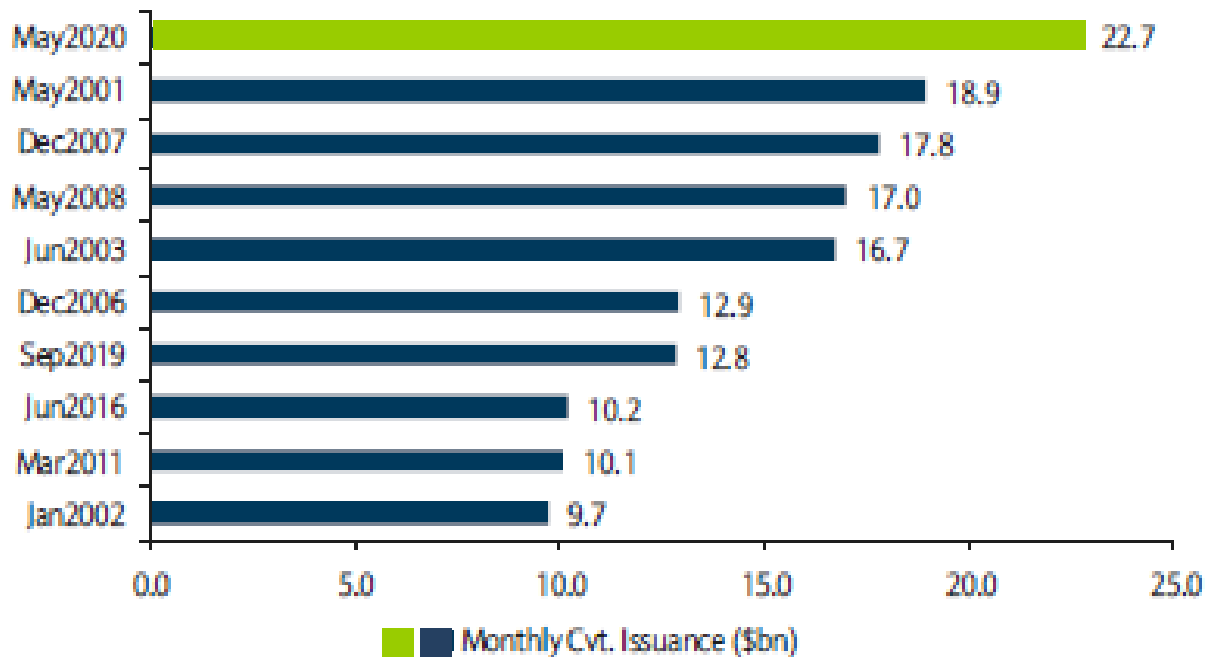
Issuance is important as a means to replenish the supply of potential trades, given the moderate duration of most convertible bonds.

Source: Barclays Equity Research, using data from Barclays Research as of 5/29/20, the most recent data available

## Convertible Bond Issuance

FIGURE 1

May 2020 CB volume set new records



Source: Barclays Research as of 05/29/2020



Annualized Performance of Referenced Indexes & Definitions:

<b>ANNUALIZED RETURNS THROUGH 9/30/20</b>	1 year	5 year	10 year
Absolute Convertible Arbitrage Fund (ARBIX)	7.09%	5.46%	4.74%
HFRX Fixed Income Convertible Bond Index	11.07%	4.86%	3.20%
IBoxx High Yield Index	1.60%	6.17%	5.77%
Bloomberg Barclays Aggregate Bond Index	6.98%	4.18%	3.64%
HFRX Global Hedge Fund Index	4.23%	2.14%	1.08%
S&P 500 Index	15.15%	14.15%	13.74%

The indexes listed above are used in various places within this presentation to illustrate certain points about fixed income strategies, hedging strategies and/or general market categories.

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## Definitions:

*The HFRX (Hedge Fund Research) Fixed Income Convertible Arbitrage Index includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a convertible fixed income instrument.*

*The iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe.*

*Standard Deviation indicates the volatility of a fund's total returns. In general, the higher the standard deviation, the greater the volatility of return.*

*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.*

*Sharpe Ratio measures the performance of an investment compared to a risk-free asset, after adjusting for its risk. It is defined as the difference between the returns of the investment and the risk-free return, divided by the standard deviation of the investment.*

*The Bloomberg Barclays US Aggregate Bond Index, or the Agg, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.*

*The S&P 500, or simply the S&P, is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States.*

ABSOLUTE INVESTMENT TEAM:

- **Jay Compson**, Portfolio Manager | Principal & Founder Absolute Investment Advisers
- **Nathan Houser**, Vice President, Portfolio Management
- **David Faherty**, General Counsel | Chief Compliance Officer
- **Neil Kristian**, Vice President, Operations and Administration

FEATURES & BENEFITS:

- Daily Pricing
- Daily Liquidity
- 1099 Tax Reporting (No limited partnership agreements or K-1)
- Independent administration through the Forum Funds  
Trust and Apex Fund Services:
  - *Bank Custody of Assets through MUFG Union Bank, N.A.*
  - *Accounting, Pricing & Administration*
  - *Independent Chief Compliance Officer*
  - *Independent Board Of Trustees*
  - *BBD LLP, Auditor*
  - *K&L Gates LLC, Fund Counsel*
  - *Seward & Kessel LLP, Independent Trustee & Counsel*

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