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Markets continue to exhibit an incredible act of levitation as price-insensitive buyers force asset prices ever higher. Debt-fueled stock buyback programs, central bank purchases, algorithmic and risk-parity buyers, and massive flows into passive, beta investments are fueling a wave of risk-insensitive activity unlike anything in history aside from 1929 and 2000. We believe this latest post-election move can be viewed as market euphoria, just as seeds of the next downturn are beginning to surface.

We currently believe we have a very favorable portfolio setup, similar to prior periods such as mid-2015 and early 2016, where there's a very large gap between our long and short portfolios. Cheaper securities with favorable fundamentals (current longs) are lagging overvalued, cap-weighted indices (current shorts). Specifically, the securities in our long portfolio seem to have struggled to gain the favor of passive buyers, and are underappreciated. We believe our current portfolio setup will be rewarded with significant performance opportunities once the latest cycle of abnormal market conditions exhausts itself. Again, this environment appears to be quite similar to past episodes and may be setting up for an extensive long/short opportunity.

Fundamental bias, patience, and diversification are our discipline. For anyone with a similar philosophy, this environment has been punishing. Passive investing and risk-parity strategies are the crowd favorites for this cycle. While many have chosen to maintain a passive bias, not one investor or advisor we've met with is actively betting client capital on another asset bubble. No, this current situation has been created by a willingness to ignore inflated prices and continue to hope for another year of escape. Asset allocation has become the antithesis of the "efficient market hypothesis." What analysis is actually being performed? Who is left to perform individual stock selection and to allocate capital based on all available information? Most of the survivors left in the active management industry do not focus on alpha; they are marketing behemoths. The world of investment management has decided fundamental research is no longer necessary. As such, the overall market structure has become even narrower and more inefficient. How ironic.

The following are just some of the insights we note when evaluating the current environment:

- The cumulative market cap of the Russell 2500 has grown 16% since 2014, while net income has dropped 20% (FPA LLC, Bloomberg)
- The S&P 500 Price to Sales ratio is at September 2000 levels, 25% higher than 2007 peak (Bloomberg)
- The S&P 500 Enterprise Value to EBITDA is at September 2000 levels (Bloomberg)
- The Russell 2000 Enterprise Value to EBITDA is 80% above its previous record level (Bloomberg)
- The S&P 500 Median Price to Earnings ratio is over 24; the median since 1965 is 17. (Ned Davis Research)
- The S&P 500 Median Price to Sales is 35% above the previous record in 2007 (Hussman Advisors).
- The S&P 500 (ex financials) Debt to EBITDA is higher than both the 2002 and 2009 recession peaks (Citigroup)
- The CBOE SPX Volatility Index recently broke below 10, a level last reached in 2007 (Bloomberg)
- Stock market capitalization to GDP is the highest in history outside the 2000 bubble
- The Shiller CAPE ratio recently hit 29, nearly the same level as the 1929 peak
- Three of the largest consumer credit companies in the U.S., Ally Financial, Synchrony and Capital One, have all recently reported sharply higher net charge-offs (NCOs), (Bloomberg)
- Auto sales and auto lending also appear to have peaked and are turning down while loan delinquencies have risen (Bloomberg)
- Home Capital Group, the largest non-bank mortgage lender in Canada, appears to be having a Bear Stearns moment; risk is now spreading to others
- The primary source of reflationary market "gifts" over the past one year and ten years came from China. PBoC generosity is in no way sustainable and credit growth is now slowing (A. Hunt Economics).

(continued on reverse)

See Reverse for Definitions & Risks

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We have a market environment that combines some of the highest valuation levels in history with an aggregate collection of price-insensitive buyers. Couple that with structurally low growth, record high corporate leverage, central banks that desire raising rates and shrinking balance sheets, extremely low levels of volatility, cresting auto sales, deteriorating consumer credit, and a potentially hostile geo-political environment and you have the potential for severe volatility dead ahead.

The chance for massive stimulus and tax cuts also seem to have dwindled significantly. The combined GOP Congress and White House do not appear to be as cohesive as in years past. There are also significant debt and budget constraints, which are a far cry from prior tax cut proposal conditions. Treasury Secretary Mnuchin also recently commented that getting back to 3% GDP growth may take two years.

At some point, we believe most everything currently driving frothy, overvalued market conditions could suddenly stop working and reverse. As such, we are maintaining a negative beta bias. Certainly there is a risk that this abnormal market cycle can go on longer. If so, we plan to remain flexible around sizable bumps in volatility. However, at this point we believe the risk is more likely to be a final, short-term upside thrust. Our long portfolio includes very cheap out-of-the-money call option protection should this event happen.

We continue to believe our disciplined approach is rare in today's crowded financial market landscape. The active alternatives space has already gone through a significant bear market relative to major market indices; this experience is not dissimilar from that of value investors in the late 1990s. In addition, it has proven that very few strategies are providing any source of return outside of beta. Should market forces and volatility awaken again, it's clear from drawdown studies that almost no combination of these competing products will diversify away market risk. The allocation math is quite simple. Even a small allocation to a strategy positioned for alpha like ours would provide much more diversification potential vs funds that provide correlated market performance. The potential for upside returns during critical drawdown periods cannot be understated during periods of historically high valuations. When asset prices cheapen again, we will most certainly participate. If the current environment is indeed similar to 1999 or 2007 (as the above insights may suggest), then we could have a generational long/short opportunity at hand.

***Definitions:** *The S&P 500 Index is a broad-based, unmanaged measurement of changes in stock market conditions based on the average of 500 widely held common stocks. The Russell 2500 and 2000 are market cap weighted indices that include the smallest 2,500 and 2,000 companies covered in the Russell 3000 universe of United States-based listed equities. The Russell is by far the most common benchmark for mutual funds that identify themselves as "small-cap." CBOE (Chicago Board Options Exchange) SPX Volatility Index shows the market's expectation of 30-day volatility. The Shiller CAPE ratio is cyclically adjusted price-to-earnings ratio commonly applied to the S&P 500 Index. It is defined as price divided by the average of ten years of earnings (moving average) adjusted for inflation. Alpha is the measure of performance on a risk-adjusted (beta) basis. Alpha takes the volatility (price risk) of a fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha. 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. Correlation is a statistical measure of how two securities move in relation to each other.*

Additional Risks: Since the Fund utilizes a multi-manager strategy with multiple subadvisers, it may be exposed to varying forms of risk. 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.

The Fund may invest in foreign or emerging markets securities which involve special risks, including the volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets. The Fund may invest in debt securities which are subject to interest rate risk. An increase in interest rates typically causes a fall in the value of the debt securities the Fund may invest in.

The Fund may also invest in high yield, lower rated (junk) bonds which involve a greater degree of risk and price fluctuation than investment grade bonds in return for higher yield potential. The Fund's distressed debt strategy may involve a substantial degree of risk, including investments in sub-prime mortgage securities.

The Fund may purchase securities of companies in initial public offerings. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the company and limited operating history. 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.

The Fund may also invest in derivatives which can be volatile and involve various types and degrees of risks, depending upon the characteristics of a particular derivative. The Fund may invest in options and futures which are subject to special risks and may not fully protect the Fund against declines in the value of its stocks. In addition, an option writing strategy limits the upside profit potential normally associated with stocks. Futures trading is very speculative, largely due to the traditional volatility of futures prices.

Investors should carefully consider the Fund's investment 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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