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PORTFOLIO COMMENTARY : Third Quarter, 2011

For the 3rd quarter of 2011, the Absolute Strategies Fund was up 1.56% vs. losses of -13.87% for the S&P 500 and -6.45% for the HFRX Global Hedge Fund Index. Year-to-date as of Sept. 30, the Fund was up 2.20% vs. losses of -8.68% and -8.43% for the S&P 500 and HFRX Indices respectively. The Fund continues to perform well in a highly volatile and correlated environment for all assets classes; the Fund's beta (sensitivity) to the S&P 500 continues to be quite low.

[Quarter-End Performance: As of 9/30/11, the 1- year, 5-year and since inception annualized performance for I- Share was 3.25%, 3.28% and 3.44% 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. For performance current to the most recent month-end, visit the Fund's web site at www.absoluteadvisers.com. As stated in the current prospectus, the Fund's total annual operating expense ratio (gross) for Institutional Shares is 2.28%. Excluding the effect of expenses attributable to dividends on short sales and acquired fund fees and expenses, the Fund's total annual operating expense ratio (net) was 1.73% for Institutional Shares.]

As we laid out last quarter, the Fund was positioned for heightened volatility and our overall exposures, while not net-short, did provide a slight negative beta bias during both August and September. This was a fairly unusual defensive position overall for the Fund, and we would not expect to produce a similar result in a typical down period for the markets. Market volatility and crowded thinking provided a large mispricing gap that the Fund's managers were able to capture. As we discussed in our 2nd quarter commentary, group-think around the global growth/inflation trade and a declining US dollar were driving the correlation of everything; if it reversed there would be a large liquidity gap. It reversed. Economically sensitive securities were punished from weakening fundamentals and overly optimistic expectations, and the levered US dollar carry trade started to unwind. In a nutshell, our Fund avoided directional exposure to this event. The Fund favored reasonably valued high quality companies with lower economic sensitivity. Against this the Fund avoided, shorted or hedged positions in cyclicals, European financials, small-cap equities, and EUR/USD currency. Our market-neutral and convertible arbitrage managers provided an additional beta-neutral posture for the Fund.

Although overall equity valuations have become more reasonable (even the short-side started to become crowded for a bit), we continue to have concerns about the overall investing climate and we believe investor expectations for global growth and earnings are far too optimistic. While we are not quite as defensive as before and we allocated capital more opportunistically following the selloff, the Fund continues to be positioned very conservatively (net long with a neutral beta bias). Our allocations to our managers remain stable and balanced. We continue to see opportunity and discrepancy in the pricing of high quality vs. high risk companies (measured by price/cash generation and balance sheet strength). We are excited to become more aggressive, but not in an environment where many investors are still quick to buy the dip, find the next short-term momentum trade, or just do whatever their computer advises. Even most hedge funds have done a poor job assessing risk as their asset bases have become institutionalized. Many good hedge fund managers are giving in to career risk and catering to client desires instead of focusing on investing risk. While that's all well and good in a benchmark-hugging world, it is a recipe for disaster for a hedge fund and we would expect there to be large redemptions for many funds.

We strongly urge our investors to remain patient.

Some people may find a few of our commentaries to be overly bearish and may even find our thoughts tough to digest. It is not our goal or objective to be a bear market fund and we enjoy no agenda from providing a pessimistic tilt. In fact in early 2009, we felt quite optimistic in a forest full of bears. Most of the time we are usually quite agnostic concerning the overall macro environment, but it is also our job to try to recognize when things just do not seem right. The reason we may sound different from most fund managers and commentators is that we take no solace in an industry whose success benefits only from infinitely upward market biases and routinely hides behind the cloak of a benchmark. Trying to avoid thinking about grim outcomes simply because they are unpleasant or potentially negative to your business doesn't make them less likely to occur or make them go away entirely. Instead, we strive for critical thinking that focuses on longer term outcomes, not abstract status quo. We do not mind the risk of appearing wrong in the eyes of those who prefer to fail comfortably within the herd 3 months at a time. These are incredibly complex and uncertain times and there is no guarantee that wide scale deleveraging will work out differently than it has throughout history. As such, there is much more to the long-term capital allocation picture than the current estimated P/E ratio on the S&P 500 index, or the current level of interest rates on the US 10-yr Treasury note. Other historical precedent and long-term global economic rebalancing must be taken into account.

With all of the volatility and noise from global policy makers, it's easy to lose sight of the big picture. There's no reason to try to discuss what happened over the past few months except to understand that volatility is simply the gap between investor expectations and reality. As we've been arguing for many months, there has been a very large mis-pricing gap among a variety of global asset classes that were just as correlated on

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the way up. The mistakes that are causing the current volatility are not the mistakes of "today;" they were created during the euphoria of the credit boom and global growth cycle of the past decade-plus. Most losses are simply caused by investors overpaying for assets based on short-term unrealistic or misplaced expectations. Any analysis performed is cursory at best and usually promoted by skewed biases, academic dogma, and limited imagination defined by the backward-looking crowd. Losses have been made worse by global policy makers' attempts to maintain the boom through additional borrowing, stimulus, and intervention to create artificially higher asset prices. Effectively, this has only encouraged investors to move into higher risk assets at even higher prices, thus compounding the mis-pricing gap and spreading denial to the herd.

Large imbalances exist throughout the global economy and we are highly concerned about not only the unwinding of a global credit bubble, but an unwinding of global growth as well. Countries that were once able to bail out others' problems are now having difficulty FUNDING their own current obligations, never mind actually paying them off. As we have routinely stated, you cannot solve a debt problem with more debt. We are now witnessing what happens when some of the largest bond markets in the world realize the tipping point in this exercise.

Unfortunately, policy makers, investors and bank executives are stuck in a "group-think" bubble that performs well in an abstract world, but lacks the imagination and experience necessary to grasp the concept of hardship. Even their worst case scenarios are skewed toward a positive result. This has created misallocation of capital on a wide scale and that capital is tied up in large, weak institutions that are not allowed to fail. These institutions have now reached the point where they cannot all be bailed out. Funding has dried up for some of the largest banks and sovereign bond markets in the world and there is not enough capital or political will to bail them all out. Defaults and debt write-downs could be intense due to past bailouts and leverage that has grown exponentially beyond the level of the 2008 crisis; problems measured in billions have now become trillions.

For the global economy, many of the pieces that helped create the growth cycle (mostly infinitely expanding credit) are likely to unwind as well. Even if Europe gets it exactly right, it doesn't tilt the economic picture to the positive. European sovereign debt funded large government spending that represented 60-80% of overall spending for many European countries. This spending clearly generated unsustainable income and entitlements. This spending not only needs to be reduced dramatically, but the debt needs to be written down on bank balance sheets. These same banks provided much of the debt that funded the foreign capital boom for emerging markets. That has now ground to a halt.

European government spending and debt-fueled income provided the platform for a very large customer base for emerging markets' and Chinese goods. Austerity will shrink this pie going forward. Since levels of debt in Europe, emerging markets and China were determined based on highly optimistic estimates for growth that are now too high, a vicious reversal of the overall global growth cycle could develop. These economies are much less healthy and more imbalanced than they were in 2008. Since the global financial system is highly interconnected, defaults and contracting credit could result in a major slowdown in global economic growth and trade. China's bond market may already be signaling trouble ahead, especially for their large state-owned banks. As discussed in the 2nd quarter commentary, a slowdown or hard landing in China and emerging markets could prove to be the largest unexpected and underappreciated result for corporate earnings. Relatively speaking, the US *economy* is currently in a favorable position and a slowdown here may be nothing compared to what Europe or China may face.

For those anxious for a solution, it's important to understand how far removed policy makers and investors are from reality. You need to look no further than the Belgian bank, Dexia. Dexia was recently bailed out by Belgium and France only months after passing the European "stress-tests." Apparently, the bank did not have normal balance sheet leverage that they and most banks "attested" to, but instead had leverage that made Lehman look safe. Sovereign debt haircuts were not required for the stress-tests; thus Dexia is clearly not a one-off problem. Most European bank balance sheets are not as clean as advertised once true sovereign debt prices are utilized. Haircuts for Greece alone could be greater than 70%, and the problems in Spain and Italy will be much more serious should haircuts be required.

According to Bloomberg, Italy's government debt alone amounts to 1.59 <u>trillion</u> Euros and much of that needs to be refinanced in the next 6 months. Worse, Italy's borrowing costs have already spiked and every passing month of uncertainty and delay makes the situation more insurmountable. Italy will not be bailing anyone out, yet they are responsible for 17.9% of the European Financial Stability Facility (EFSF). France and other European countries do not have the ability to bailout their own banks without having their funding costs and debt levels soar (plus a credit downgrade). French banks are also the biggest holders of Greek debt. Will they choose a sovereign country over their own banks? On the other hand Slovakia, which has followed the EU fiscal rules, is being asked to support Greece, a country that has paid its people more than twice what the average Slovakian makes. Each of the 17 Eurozone members has differing national interests and fiscal situations. Finding consensus and executing any plan will be incredibly complex. Policy makers' have made the situation much more difficult by their own ineffective measures, yet somehow they continue to promise a solution. Their desire to kick the can down the road may soon run out of road.

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Looking out over the next several weeks and months, we have no idea what to expect or where the markets will go. We feel fairly certain that there will be continued attempts to bailout XYZ country, to recapitalize the European banks, or to engage in money-printing. There will be many that will hold up the "all clear" sign and this may prompt the crowd to speculate short term, resulting in powerful market rallies. In the end, there is no money. Only the true action needed to solve the crises will result in a sustainable recovery: broad debt and asset write-downs. Other than Greece, this is unlikely to occur near term as the usual solution, "just leverage the damn thing," is hard to quit cold-turkey. Policy makers are delusional and reluctant to accept necessary losses. Even if there is a plan, what is the outcome and will voters across the Eurozone (especially Germany) be ok with it? We remain skeptical. To borrow a Winston Churchill quote from the UK Daily Telegraph:

> *"Want of foresight, unwillingness to act when action would be simple and effective, lack of clear thinking, confusions of counsel, until the emergency comes, until self-preservation strikes its jarring gong – these are the features that constitute the endless repetition of history."*

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 HFRI Indices are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets It is not possible to invest directly in an index or average. 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.*

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 is non-diversified and may focus its investments in the securities of a comparatively small number of issuers. Concentration in securities of a limited number of issuers exposes a fund to greater market risk and potential monetary losses than if its assets were diversified among the securities of a greater number of issuers.

The Fund may invest in small- and medium-sized companies which involve greater risk than investing in larger, more established companies, such as increased volatility of earnings and prospects,higher failure rates, and limited markets, product lines or financial resources.

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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