ABSOLUTE STRATEGIES FUND

PORTFOLIO COMMENTARY - ASFIX

Q4 2018

ABSOLUTE FUNDS

Fund Positioning & Investment Philosophy

The Fund held its highest defensive positioning from October to the December low. Once markets reached extremely oversold levels, we monetized some of our short exposure near the lows and bought some upside optionality (hedging) in the form of index call spreads. We expect to continue to trade around market volatility while maintaining a highly defensive posture. We plan to become aggressively defensive again as rallies wear thin and investor optimism returns; this is likely to coincide with a more dovish Federal Reserve. It's also likely any slowdown in US growth will be blamed on the government shutdown. Therefore we expect some period of volatile consolidation with several rallies and selloffs, followed by the next major leg lower in equity markets to most likely occur during the second half of 2019.

We hope investors and advisors can recognize the need for diversification away from a 100% passive, beta portfolio and re-introduce strategies that may provide some defense by taking advantage of difficult, volatile environments. We believe the last few years were not indicative of a free market system, nor a fair market test for strategies like ours given the flood of liquidity and interference by global central banks. This intervention caused a massive, artificial suppression of interest rates and volatility, which are key drivers in adequately pricing risk and delivering alpha. Instead, many strategies were given a free pass to take on "risk-free" beta and everything correlated into one large liquidity bet. Many of our competitors benefited from our headwinds by posting what appeared to be solid performance. However, the past few months (much like hedge funds in 2007-2009) have proven that many of our alternative investment competitors are nothing more than a complex idea inside a beta-chasing wrapper, or worse. The performance has been extraordinarily awful across the board for many alternative strategies that are supposed to be providing diversification. Not only are they failing to provide any diversification benefit, many are actually leveraged to the same beta investments that exist across a traditional investor portfolio.

Our philosophy and process, on the other hand, has never varied. We do not chase risk. We do not chase beta. We do not claim to be something we are not. We recognize that certain market environments will be challenging. We do not pretend to try to avoid them; providing a diversifying strategy that varies capital at risk is not supposed to be easy. Outside of the past five years, our strategy performed well in a variety of market environments. We generally kept pace with market indices and easily outperformed most benchmarks from inception in 2005 through 2012, a period containing only one down year. We believe the last five years will be looked at as an historic outlier brought on by an extraordinary effort by global central banks to artificially extend an already 40-year decline in interest rates. This experiment is being unwound and in the end will likely be viewed as destructive; at least until the next major crisis wipes out asset prices.

Conversely, we also believe it is necessary to learn from our own investment experiences. Our fault over the recent past was not recognizing zero percent rates and central bank liquidity could drive speculation to reach such extreme levels after failing miserably following the past two events; this on top of little underlying revenue growth. We recognize that fundamental and valuation analysis are not the sole driver of market pricing and certain mechanisms have been altered due to the high concentration of capital allocated to passive, quantitative/algo and momentum strategies. These strategies are generally insensitive to valuation and fundamental concerns which can cause large deviations from historical market averages. We have added technical research and analysis to our efforts in order to better assess the overall market cycle as it relates to our positioning. This is simply an added tool to our process and we hope these efforts will help minimize periods of underperformance. We also have provided access to two single-manager strategies in separate funds to fit alongside more traditional equity or fixed income allocations. We anticipate that our overall collection of funds will provide a better choice of strategies for investors and advisors looking for more flexibility and diversification across a market cycle.

Market Commentary

Our prior commentary of October 18, was aptly titled, "Global markets have begun to show their hand." We stressed that markets were providing a back drop similar to the year 2000 peak, which could be the start of a long drawn out bear market lasting several years. We think the similarities to the 2000 period were striking: extreme valuations; global markets and sectors diverging following an extended market and economic cycle; big swings in volatility along with several advances back toward markets highs. The spark was simply due to a sharp rise in interest rates and threats of inflation that are being accompanied by central banks unwinding their balance sheets and tightening liquidity.

Since that time, markets have indeed entered a bear market period with every major market index falling 20% or more from early October to late December. Similar to early 2001 or early 2008, we believe this is just the first leg of what may be a lengthy and volatile bear market period. We do expect (much like prior downturns) violent rallies lasting weeks or even months, and may provide a feeling of relief that everything is back to normal. This is how bear markets work. In fact, the current late December low may hold for some time, possibly into the second half of 2019, with the potential for some indices to rally back near prior highs, (similar to 2001). In our view, a typical bear market rally in the S&P 500 could reach the 2700-2800 range. (continued on reverse)

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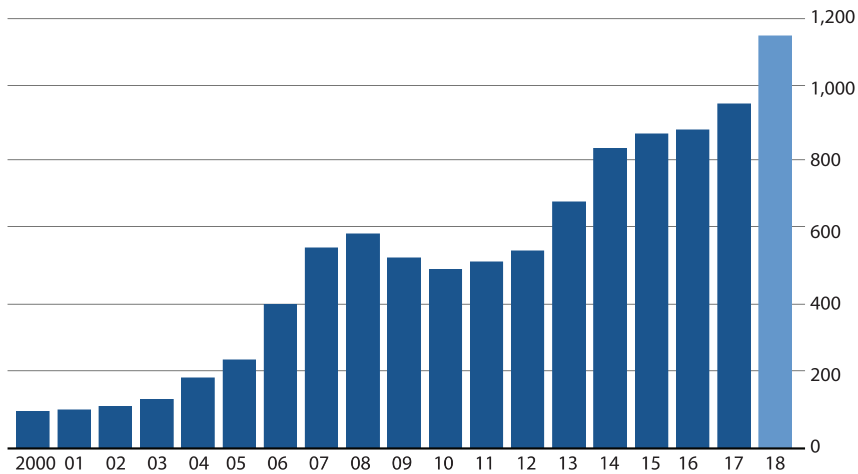
Markets are still adjusting to what is likely a secular trend of higher interest rates which could result in a complete repricing of risk across a variety of asset classes. In effect, the past 5-6 years have seen investors pile into risky assets believing that low rates would be permanent. Given the extended rise in LIBOR and other market rates, we now know this idea was misplaced and is likely to result in a complete reversion to the mean. This may imply equity markets revisiting 2013-2015 market levels, which would require an overall drop of 40-50%. The forces of higher interest rates and resulting profit margin contraction are now set in motion and will not be easily reversed. Why? Because markets were addicted to many years of zero percent interest rates.

As a result, the scale of leveraged loans and lower graded investments has exploded. The US leveraged loan market now exceeds $1 trillion with most of these being highly illiquid.

US leveraged loan market swells beyond $1tn

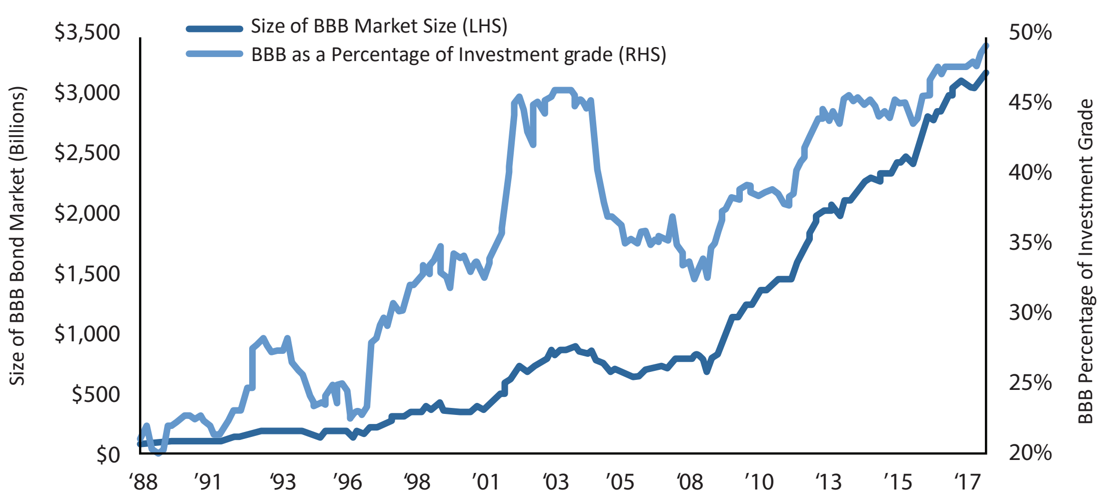
Value of outstanding US leveraged loans ($bn)



Sources: S&P Global Market Intelligence's LCD

BBB rated US corporate debt has grown to over $3 trillion; BBB rated debt now represents half of all investment grade corporate debt and we aren't even in a recession…yet.

BBB Market Size and Percentage of Investment Grade [24]



Source: First Pacific Advisor

Globally, a slowdown in China may be the largest economic risk for equity markets. China has seen a major decline in a variety of business sectors while vehicle sales had its first annual decline since 1990. One major global supplier of electronic components, Japan's Nidec Corp., is seeing a sharp slowdown in Chinese demand for auto and appliance makers by more than 30%. Nidec's CEO stated, *"…this is the first time I've seen such a large single-month drop in orders…what we witnessed in November and December was just extraordinary."* (WSJ, Jan 17, 2019). China appears to be doing all it can to attempt a soft landing, including a new round of liquidity injections. Experience tells us this is unlikely. (continued on next page)

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While trade wars and other headlines appear to be drawing political focus, there is one very serious threat that is not receiving much financial media attention: the accusation that China is hacking and stealing US intellectual property. This could be a macro, secular driver of both supply and demand for the US technology sector. Not only is China a major source of cheap labor for US companies' products, it is also an enormous end market. Thinking through this logically, the risk of US technology companies completely pulling out of China, or worse, having their intellectual property used against them, is a very real risk. Imagine the outcome if top technology companies were forced to relocate to more expensive manufacturing sites, and ended up in a price war with similar/copied Chinese technologies. Several stories have surfaced on the subject but it is almost as if they are being hidden by media outlets. Bloomberg wrote an expansive article outlining the hacking and infiltration of US technology on October 4, 2018. In December, the CFO of a major Chinese tech company, Huawei, was detained in Canada at the request of US authorities. This month, Congress introduced a bill to ban the sale of US semiconductor chips to Chinese telecommunications companies. Other than the arrest of Huawei's CFO, these stories have not received much attention compared to Fed tightening and trade war threats. Yet the Bloomberg article appeared to be the immediate catalyst for the initial downturn in the markets; in fact it was the same day. These issues do not appear to be among strategic trading partners, but between major economic adversaries. Other than handshakes and smiles, we do not see much if any real trade deal between the US and China. Quite the contrary, we believe these issues could have a major economic impact on long-term US technology company profitability.

We do not expect credit concerns or a global economic slowdown to drive markets straight down as happened in 2008. We anticipate markets will go through various periods of ups and downs, but are likely to correct meaningfully over a 2-3 year period.

ABSOLUTE
INVESTMENT ADVISERS

***Definitions:** *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. 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. LIBOR is the London Inter-bank Offered Rate, which is the average of interest rates estimated by each of the leading banks in London that it would be charged were it to borrow from other banks. A leveraged loan is a type of loan that is extended to companies or individuals that already have considerable amounts of debt and/or a poor credit history*

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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STRATEGIES FUND

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