ABSOLUTE strategies FUND

# Quarterly Analysis - Q3 2014

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## FUND POSITIONING:

Throughout 2014, the Fund has maintained a roughly equal amount of long and short exposure. Fund beta to equity indices, credit indices, and hedge fund indices has been low and at times negative. The goal with this positioning has been to generate performance from security selection, long and short, rather than betting on the overall direction of markets. This can be challenging when securities are highly correlated and macro news dominates the headlines. We believe it will ultimately be advantageous as individual companies gravitate towards intrinsic value.

It is worth noting that the Fund is not a static vehicle. It is designed to have a high degree of flexibility. It should be expected that long and short exposures will vary over time. There will be times when the Fund sees more opportunity to take on long exposure and higher beta.

As of October 1st, the portfolio could be grouped in to the four categories described below. Please keep in mind Fund allocations may aggregate into different types of categories over time.

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| **EQUITY STRATEGIES - Current Portfolio Allocation: 57%**<br>Kovitz Investment Group, Long/Short<br>Longhorn Capital Partners, Global Long/Short<br>Madden Asset Management, Long/Short Growth<br>St. James Investment Company, Opportunistic Equity<br>Yacktman Asset Management, Opportunistic Equity<br>Absolute Investment Advisers, Overlay Hedge | This group has a balance of longs and shorts when rolling up Sub-Adviser positions across opportunistic equity, long/short equity, and includes a portfolio hedge. The long side of the equity portfolio is dominated by large-cap companies within consumer staples, health care, and "legacy" technology with strong brand names and competitive advantages. The short side of the equity portfolio is dominated by market indices, industrial and consumer cyclicals, and financials (particularly those in Europe & Asia). These companies are trading at high valuations and/or are dependent on a high level of global economic growth (which has been absent). Taken in aggregate, this positioning may be viewed as quality vs. non-quality. |
| **CREDIT STRATEGIES - Current Portfolio Allocation: 15%**<br>Horizon Asset Management, Distressed Fixed Income<br>LakeWater Capital, Long/Short Credit<br>Metropolitan West, Distressed Debt & Discretionary Fixed Income<br>Absolute Investment Advisers, Overlay Hedge | The allocation in this group has been rotating from long biased exposure of mortgage backed and asset backed securities to long/short exposure in corporate credit, currently with low net exposure. |
| **ARBITRAGE STRATEGIES - Current Portfolio Allocation: 15%**<br>Mohican Financial Management, Convertible Arbitrage | A mix of hedged income, credit and volatility trading with low beta to both equities and credit. |
| **SPECIAL SITUATIONS/SECTOR - Current Portfolio Allocation: 8%**<br>Pine Cobble Capital, LLC. Long/Short Equity & Credit<br>Sabal Capital Management, Special Situations<br>Harvest Capital Strategies, LLC, Long/Short Equity - Agriculture | This may include long and short investments in companies going through capital structure changes, companies going through operational changes, or companies undergoing other business changes that have the ability to significantly impact profitability. It also includes long/short equity exposure to companies experiencing disruptions and dislocations across the spectrum of the food and agriculture industry. |

## FUND PERFORMANCE:

In the third quarter of 2014, the Fund returned 1.44%, net of fees. Equity strategies were responsible for the entire gain. Combined, the credit and arbitrage groups were somewhat flat net of fees.

More specifically, short equity exposure was the biggest driver of return in the quarter. This is despite the fact that the S&P 500 Index was up over 1% during the period. The Fund was helped by having short exposure to several industrial related companies with sensitivity to mounting global growth concerns. The Fund also had short exposure to the Russell 2000 Index, which fell over 7% in quarter (this hedge has since been rotated to other indices).

Overall, Fund performance was aided by increased volatility and increased dispersion among securities.

**Quarter-End Performance for ASFIX:** As of 9/30/14, the 1 year, 5 year and since inception annualized performance for the I- Share was 1.63%, 2.05% and 2.54% 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 for Institutional Shares is 2.47%. 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 was 1.74% for Institutional Shares.*

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.

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**SELECT MANAGER HIGHLIGHTS:**

*Each quarter, we will share information about certain managers or their comments to better explain the Fund and our thinking behind the portfolio. Please contact us for additional manager information.*

**HARVEST CAPITAL**

Harvest Agriculture Select is a long/short equity strategy focused on the entire agriculture and food spectrum. Our investment universe spans the following subsectors: Inputs (seeds, fertilizer, equipment, technology), Production (proteins, dairy), Processing (packaged foods, beverages), and Distribution (food service, grocery).

We believe there are strong secular trends that will benefit the agriculture space over the medium to longer term, including global consumption patterns, inflation as well as productivity solutions. Each investment is categorized along the following dimensions:

- *Strategic Investments.* These companies look to leverage the longer term secular thesis driven by population growth, improving diets in emerging markets, etc. Key criteria revolve around under-penetration of these companies' main products and/or services where economic drivers will further enhance adoption.
- *Tactical Investments.* Shorter term trading opportunities based on the inter-relatedness of companies across our investment spectrum. Our deep understanding of company fundamentals across the ag/food universe has resulted in numerous tactical trading opportunities, taking advantage of commodity movements and/or other dislocations.

While we strongly believe in the longer term secular thesis that will force productivity enhancements, the current environment continues to be challenged by cyclical factors. During the growing season of 2012, we experienced a significant drought, negatively impacting yields and inventory levels of many food communities. Lower yields resulted in higher prices, positively impacting farmers' incomes and spending patterns on large equipment, technology investments, premium seeds as well as generous nutrient application. Yields have meaningfully improved the last two years, causing food commodity prices to contract and consequently, resulting in lower spending and investment patterns by growers. While we would expect the near term cyclical issues to continue to constrain farmers' incomes, we are actively looking for opportunistic investments to capture a potential mean-reversion trade. Given our investment universe spans across the entire food/agriculture spectrum, we are able to reposition capital across various sub-sectors to tactically benefit depending upon where we are in the cycle. For example, while we would expect commodity prices and core agriculture equities to continue to be challenging, many companies in our "Production" subsector benefit from these lower input costs.

**PINE COBBLE CAPITAL**

Pine Cobble Capital manages an opportunistic, event-driven strategy focused primarily on domestic small and mid-capitalization companies. We invest in situations with tightly defined operational and/or capital structure catalysts that can create or destroy meaningful value. The portfolio consists of a concentrated number of long and short positions in which we have exploited in prior investing experience, have a contrarian perspective on a company or industry, or have an understanding of a complex balance sheet to identify attractive asymmetry.

The opportunity set we establish at any given time dictates the mix of event types in the portfolio and the ratio of our long and short equity and credit exposures. It is dynamic and has undergone significant and sometimes abrupt shifts since we started the firm in 2007.

Currently, the macro picture is dominated by global central banks employing aggressive monetary policy to combat anemic growth and deflation risk. This activity has artificially suppressed interest rates and volatility, boosted capital market access and liquidity and thereby created an opportunity for value creation (primarily at the equity layer) through cost of capital reduction. Companies are capitalizing on this by pursuing strategies that generally follow three major themes: (1) disaggregation of cash flows or business units to provide greater clarity and therefore theoretically higher valuations; (2) capital structure and portfolio optimization; and (3) tax efficiency. Our long portfolio today is heavily concentrated in investments with hard catalysts that reflect the event types associated with these

*(Pine Cobble commentary continued on next page)*

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**PINE COBBLE CAPITAL (Continued)**

themes. These include spin-offs, asset sales, structural conversions (i.e. MLP and REIT formation), leveraged recapitalizations, M&A and special situations. While we are industry agnostic, we presently have significant exposure to energy infrastructure companies which are benefitting from a secular growth tailwind and cheap capital. On the short side, we are primarily focused on single position or industry level hedges at this time, reflecting our view that we are still early in the cycle for aggressive event-driven shorting.

Conversely, we believe that we are in the later stages of this bullish macro cycle and recent downside market volatility highlights the risk inherent in the high levels of investor complacency that have been building. We sit at a complicated transition point between the closing innings of an unprecedented experiment in monetary easing and whatever comes next. As a result, we are currently running with a sizable cash balance (i.e. low gross exposure) that serves to reduce the basis risk between our long and short books and leaves us ample dry powder to take advantage of dislocations.

**Definitions:** *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 multipl Sub-Advisers, 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 in which the Fund may invest. 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 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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