ABSOLUTE STRATEGIES FUND

# Quarterly Analysis - Q4 2015

Nathan Houser, VP, Portfolio Management

## FUND POSITIONING:

How does the Fund build a portfolio of mis-priced securities that offer some margin of safety, in a market that appears over-saturated with capital? Add in the challenge that equity markets have been historically expensive by many measures, credit markets have been historically expensive by many measures, and correlations have been exceptionally high. Simply put, most areas of the market appear expensive, crowded, and correlated. These are things the Fund actively tries to avoid, particularly for long investments.

Our answer to this question has been to maintain a balance of longs and shorts with low net exposure in an attempt to isolate performance that comes from something other than beta (security selection). This includes concentrated long biased strategies offset by index hedges (short indices), short biased strategies offset by index hedges (long indices), and other strategies that are naturally long/short, low net.

Increased volatility and large drawdowns in some areas appear to be opening up opportunities for some new individual long positions. It should be stressed that it appears early in that process. The Fund remains in a defensive posture.

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| **EQUITY STRATEGIES - Current Portfolio Allocation: 56%**<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 equity exposure has been net short at times. The long side of the equity portfolio is dominated by companies typically associated with value investing - strong brand names, strong balance sheets, competitive advantages. The short side of the equity portfolio is dominated by index related hedges and select individual names with high global economic sensitivity – industrial cyclicals, consumer cyclicals, financials (particularly in Europe and Asia). Collectively this mix can be viewed as quality vs. non-quality, or value biased. *(*see comments from Longhorn Capital on page 2)* |
| **CREDIT STRATEGIES - Current Portfolio Allocation: 7%**<br>LakeWater Capital, Long/Short Credit | The exposure is to long/short corporate credit, currently with low net exposure. At this point in the cycle, the focus is on generating performance from the short side through spread widening in a concentrated group of investment grade credits. Long investments in short duration bonds are designed to help offset the cost of short investments. |
| **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: 17%**<br>Boston Company Asset Mngmt, LLC. Long/Short Equity & Credit<br>Sabal Capital Management, Special Situations<br>Harvest Capital Strategies, LLC, Long/Short Equity - Agriculture | This group includes a unique collection of investments long and short. All three managers are very different from each other, and often different than other hedge fund managers in their respective areas. It is notable that the Boston Company strategy is moving away from event driven investments, which face several headwinds/risks, to focus more on energy related securities. |

## FUND PERFORMANCE:

For the fourth quarter of 2015, the Fund returned negative 3.10%, net of fees. Credit and Special Situation/Sector strategies were around flat (gross of fees) while Arbitrage strategies was down over 1% (gross of fees). Equity related strategies, including portfolio hedges, returned around negative 4% (gross of fees).

Quarter-End Performance for ASFIX: As of 12/31/15, the 1 year, 5 year and 10 year annualized performance for the I- Share was -1.44% , 0.30% and 1.98% 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 2.60%. 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 1.79% 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. Below is a Q&A with Longhorn Capital Partners, a GLobal Long/Short manager in the Fund.*

**AIA: Can you briefly describe the strategy?**

**Longhorn:** Longhorn employs a fundamental equity investment strategy with particular emphasis on generating alpha on the short side. We pursue investments globally across industries and sectors with the exception of healthcare. Historically, a focus on the financial, industrial and consumer sectors has been opportunistically augmented by technology and energy investments. We analyze businesses looking for compelling risk-reward for short investments in companies exhibiting meaningful weakness or vulnerability relative to the valuation. The investment universe tends to be characterized by mid and large market capitalization companies, with generally higher trading liquidity, lower short interest and little overlap with "popular" positions -- all characteristics which can serve to improve risk-adjusted returns while creating a different return profile than most other investment funds.

**AIA: Why the focus on companies outside of the US?**

**Longhorn:** Understanding what is happening internationally improves the investment process within the U.S. as well as creates a source of new ideas where knowledge gained from one geography can be applied to similar situations in other geographies. This global awareness often allows for the identification of opportunities at an earlier stage where a larger market disconnect can be exploited. As well, the addition of investments with lower correlation and potentially different sensitivities to macroeconomic variables aids in the portfolio construction process and the pursuit of better risk-adjusted returns.

**AIA: The term "industrial recession" has been used a lot recently by the financial media. I know industrial stocks have been a focus of the portfolio for some time now. Is all the bad news priced into these stocks or is there more to go?**

**Longhorn:** It varies. Different industrial companies are at different stages in terms of [earnings] estimate revision and multiple compression [price to earnings or price to sales, etc.] cycles. In aggregate, we continue to believe that negatives such as order trends, pricing pressures and margin headwinds may not be fully reflected in estimates or valuations. Weak stocks continue to trend down in the current environment. But we have increasingly positioned more of the industrial portfolio in later cycle companies with greater downside potential.

**AIA: What other areas do you find most attractive today?**

**Longhorn:** We continue to maintain long standing exposure in compelling short positions in European and Chinese financials. We also entered the year with meaningful U.S. financial short exposure. Increasingly, we see more earnings growth estimates at risk within the consumer discretionary sector and find high multiple growth stocks within that sector particularly vulnerable. We have largely cycled out of short positions related to energy, but find later cycle industrials, including aerospace, to offer compelling risk-reward. Lastly, competitive pressures in select software companies may continue to challenge hyper-growth stories with elevated multiples.

**AIA: It seems as if the environment for short selling has improved quite a bit over the last six months. To use a baseball analogy, what inning do you think we're in (not necessarily for the market but for the stocks in your portfolio)?**

**Longhorn:** We believe estimates remain high and valuations rich for a large number of companies across industry sectors. While the damage appears likely in the later innings in energy and materials, other sectors consist of companies whose stock prices have not begun to discount the risks in their business models and earnings profiles. Moreover, it is easy to underestimate momentum to the downside in the energy and materials sectors suggesting there may be much more to come even with those sectors. We have rotated the portfolio toward positions we believe to be earlier in their downward trajectory. For some of these positions, we are in the very early innings, and for many the first pitch has not even been thrown.

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**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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Three Canal Plaza, Suite 600, Portland, Maine 04101
(888) 99-ABSOLUTE or (888) 992-2765
**www.absoluteadvisers.com**

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