

THE CORE STRENGTH of CONVERTIBLE ARBITRAGE

THE ABSOLUTE CONVERTIBLE ARBITRAGE FUND [ARBIX]



ABSOLUTE

The attractiveness of an arbitrage portfolio is that its performance profile is not based on forecasting market directions, but rather on an expected return to fair value of securities. However, many arbitrage strategies contain no driver for return to fair value, leaving the time frame for return to fair value highly uncertain and possibly very long. For example, long/short strategies, like the equities they hold, contain no time frame for valuation that would act as a forcing function for a process of return to fair value.

Convertible arbitrage is different because, within a specified time frame, the investor is assured of a return to fair value when the convertible bond matures on a predetermined, typically short-term, date. Prior to maturity, the security may be redeemed by the issuer or converted by the holder into the underlying short stock position, or the underlying company may be acquired or become bankrupt, but in all events the convertible is paid fair value in cash relative to its offsetting stock hedge within an identifiable, typically short-term, time frame. As a result, convertible arbitrage can be a lower-risk, buy-and-hold strategy that may carry less uncertainty than other “relative value” hedge portfolios as to when and whether the “undervalued” security will trade to its fair value.

In addition, every convertible security is of a hybrid design that may control risk by being diversified between bonds and equities. If the underlying stock depreciates, the bond depreciates less. If the stock price collapses, the bond price drops only to its straight-bond floor value. And if the stock goes to zero, the bond nevertheless typically retains some recovery value. Of course, any reduction in bond price also increases the current yield and yield to maturity of the bond.

An Educational Experience

Convertible arbitrage can experience volatility in difficult market environments, though recent periods of volatility show that it is typically much less than traditional asset classes and many other hedged strategies. (ARBIX standard deviation since conversion to a mutual fund on 7/14/17 is 2.33%.) Past volatile environments should also tell investors why convertible arbitrage, when managed prudently by an experienced manager in cooperation with committed investors, works well as an arbitrage strategy.

Most convertibles have relatively short maturities and often become close to pure fixed income securities when stock prices fall, so when the value in the market became obvious to many, they began to push prices back toward fair value and convert arb funds profited from the earlier move down in equity prices. In general the combination of value and time wins out in the end. In many instances the drawdown and subsequent recovery can be quicker in convert arb than other traditional asset classes or hedged strategies (see the table below).

| Total Returns During Volatile Periods: ARBIX | 2008 & 2009 (Full Years) | 2011/2012 (May to Feb) | 2018/2019 (Q418 & Q119) | 2020 (Q120 & Q220) |
|---|--|---|---|---|
| Absolute Convertible Arbitrage Fund (ARBIX) | 21.50% | 3.66% | 2.56% | 2.18% |
| S&P 500 Index | -20.34% | 2.52% | -1.72% | -3.09% |
| IBoxx High Yield Index | 9.97% | 5.56% | 2.98% | -5.18% |
| S&P/LSTA Leveraged Loan Total Return Index | 7.50% | 1.33% | 0.40% | -4.61% |
| HFRX Global Hedge Fund Index | -12.97% | -6.78% | -3.11% | -1.09% |
| <i>Explanation of the selected drawdown + recovery periods:</i> | <i>Equity draw-down of over 1 year + 1 year recovery</i> | <i>Equity draw-down of 5 months + 5 months recovery</i> | <i>Equity draw-down of 1 quarter + 1 quarter recovery</i> | <i>Equity draw down of 1 quarter + 1 quarter recovery</i> |

Source: Bloomberg

ABSOLUTE
INVESTMENT ADVISERS

888-99-ABSOLUTE

www.absoluteadvisers.com

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. To obtain performance information current to the most recent month-end, call the Fund at 888-99-ABSOLUTE.

| ANNUALIZED RETURNS as of 9/30/20 at NAV Since Inception Date: 10/01/2002 | 1-Year | 3-Year | 5-Year | 10-Year | Since Inception |
|--|--------------|--------------|--------------|--------------|-----------------|
| Absolute Convertible Arbitrage Fund (ARBIX) | 7.09% | 5.21% | 5.46% | 4.74% | 6.84% |
| HFRX Fixed Income Convertible Arbitrage Index | 11.07% | 4.81% | 4.86% | 3.20% | 0.07% |

As stated in the prospectus, the Absolute Convertible Arbitrage Fund's Total Annual Operating Expense ratio (gross) for Institutional Shares is 1.67% and the net expense ratio is 1.49% through August 1, 2021. However, Absolute Investment Advisers LLC, the Fund's Adviser, has contractually agreed to waive its fee and/or reimburse Fund expenses to limit Total Annual Fund Operating Expenses to 1.40% through August 1, 2021 (the "Expense Cap") and to 1.20% when the Fund reaches \$250 million in assets under management. This Expense Cap, which excludes all taxes, interest, portfolio transaction expenses, dividend and interest expenses on short sales, acquired fund fees and expenses, broker charges, proxy expenses and extraordinary expenses, may only be raised or eliminated with the consent of the Board of Trustees.

HEDGE FUND CONVERSION - In August 2017, a hedge fund managed by Mohican Financial Management LLC reorganized into the Fund. The Fund's performance for periods prior to the commencement of operations is that of the hedge fund and is based on calculations that are different from the standardized method of calculations adopted by the SEC. The performance of the hedge fund was calculated net of the hedge fund's fees and expenses. The performance of the hedge fund is not the performance of the Fund, has not been restated to reflect the fees, estimated expenses and fee waivers and/or expense limitations of the Fund, and is not necessarily indicative of the Fund's future performance. If the performance of the hedge fund had been restated to reflect the applicable fees and expenses of the Fund, the performance may have been lower. The hedge fund was not registered under the Investment Company Act of 1940 ("1940 Act") and was not subject to certain investment limitations, diversification requirements and other restrictions imposed by the 1940 Act and the Internal Revenue Code of 1986, which, if applicable, may have adversely affected its performance.

Definitions: **Yield to Maturity** is the total return anticipated on a bond if the bond is held until it matures. A **drawdown** is a peak-to-trough decline during a specific period for an investment, trading account, or fund. A drawdown is usually quoted as the percentage between the peak and the subsequent trough. The **S&P 500 Index** is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States. The **IBOXX High Yield Index** consists of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe. The **S&P/LSTA Leveraged Loan Total Return Index** is a daily tradable index for the U.S. market that seeks to mirror the market-weighted performance of the largest institutional leveraged loans. The **HFRX Global Hedge Fund Index** is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. **Standard deviation** is a statistical measurement that, when applied to the annual rate of return of an investment, shows that investment's historical volatility. Standard deviation measures the dispersion of a dataset relative to its mean.

Past performance does not guarantee future results. 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.

Asset allocation decisions may not always be correct and may adversely affect Fund performance. The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on a convertible security's investment value. Debt securities have interest rate, inflation and credit risks and are subject to prepayment and default risk. High yield and junk securities involve greater risk and tend to be more sensitive to economic conditions and credit risk. Short sales may be considered speculative and it may be difficult to purchase securities to meet delivery obligations. 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. Diversification does not prevent loss or enhance returns. Foreign investments present additional risk due to

currency fluctuations, economic and political factors, government regulations, differences in accounting standards and other factors. Investments in emerging markets involve even greater risks. Small, mid and large cap stocks are subject to substantial risks such as market, business, size volatility, management experience, product diversification, financial resource, competitive strength, liquidity, and potential to fall out of favor that may cause their prices to fluctuate over time, sometimes rapidly and unpredictably. The Fund is actively managed and may experience high turnover. This may cause higher fees, expenses and taxes, which could detract from Fund performance.

These views are subject to change at any time based on market and other conditions, and Absolute Investment Advisers disclaims any responsibility to update such views. No forecasts can be guaranteed. These views may not be relied upon as investment advice or as an indication of trading intent on behalf of any Absolute Investment Advised investment product.

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.



ABSOLUTE CONVERTIBLE ARBITRAGE FUND

Absolute Strategies Fund, Absolute Investment Advisers and their logos are service marks of Absolute Investment Advisers LLC

Three Canal Plaza, Suite 600, Portland, Maine 04101
(888) 99-ABSOLUTE or (888) 992-2765

www.absoluteadvisers.com

Distributor: Foreside Fund Services, LLC

SKU: ARB-STRENGTH