

ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q1 2018



Eric Hage is the Chief Investment Officer at Mohican Financial Management and Portfolio Manager of the Absolute Convertible Arbitrage Fund (ARBIX)

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PORTFOLIO COMMENTARY :

The first quarter of 2018 may turn out to be the long awaited inflection point where low beta alternative strategies like convertible arbitrage begin outperforming high beta, long only investments. Many long only equity and bond investments produced negative returns in the first quarter. Bond strategies delivered especially poor returns as the Barclays US Aggregate Bond Index declined -1.46%.

ARBIX steadily climbed higher, +0.98%, in the first quarter with continued low correlation to other asset classes. Since converting to a mutual fund on August 15, 2017, ARBIX has gained +3.24%, with a 0.03 beta to the S&P 500, a 0.08 beta to the Bloomberg Barclays Aggregate Index and a 0.14 beta to the iBoxx USD Liquid High Yield Index. The low beta of the strategy reflects the hybrid nature of the securities, our hedged discipline and an opportunity set offering unique exposure to small and mid-cap companies only available in the convertibles market.

The convertible asset class today looks healthy in terms of credit quality, short durations, security profile and liquidity. After a year where the default rate was less than 1%, there were zero convertible defaults in the first quarter. The average duration for the asset class is about 3 years, providing investors with low duration risk. Despite the recent drawdowns in equities, stock prices remain elevated, which means the convertible market continues to offer ample supply of "in-the-money," heavier hedged, volatility arbitrage opportunities. Liquidity is steadily improving as the TRACE (Trade Reporting and Compliance Engine) turnover measure for the first quarter was 241% annualized compared to 232% for 2017 (Barclays Research).

Ultimately, our returns are driven by successful security selection. Therefore, our odds for finding favorable risk/reward opportunities increases as the new issue market for convertibles picks up. As we stated in our year-end 2017 commentary, conditions are in place for better new issuance with rising rates, elevated stock prices and higher equity volatility.

Convertible new issuance in the first quarter was indeed strong. 32 deals were priced, which annualizes to 128. This was well in excess of the 104 deals priced in 2017. Importantly for us, 30 of the 32 deals were issued by small and mid-cap companies and 31 of the 32 deals were not rated by the rating agencies. Non-rated, small and mid-cap convertibles are the consistent source of inefficiencies and value in the convertibles marketplace and this is where we seek to extract returns. As the Federal Reserve continues to raise interest rates as expected, the opportunity set for our convertible arbitrage strategy should continue to expand at a steady pace.

- Eric Hage, Chief Investment Officer, Mohican Financial Management
Portfolio Manager of the Absolute Convertible Arbitrage Fund

Quarter-End Performance for ARBIX: As of 3/31/18, the 1 year, 5 year and 10 year annualized performance was 5.94%, 4.35% and 6.41% 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. To obtain performance information current to the most recent month-end, call the Fund at 888-99-ABSOLUTE. 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.

As stated in the current prospectus, the Absolute Convertible Arbitrage Fund's total annual operating expense ratio (gross) is 2.83%. By prospectus, the net expense ratio is 1.85%, as the Fund's Adviser has contractually agreed to waive its fee and/or reimburse Fund expenses to limit Total Annual Fund Operating Expenses.

Additionally, The Fund's Adviser, has contractually agreed to waive its fee and/or reimburse Fund expenses to limit Total Annual Fund Operating Expenses (excluding all taxes, interest, portfolio transaction expenses, dividend and interest expenses on short sales, acquired fund fees and expenses, proxy expenses and extraordinary expenses) to 1.60% (the "Expense Cap"). This Expense Cap may only be raised or eliminated with the consent of the Board of Trustees.

DEFINITIONS: The iBoxx USD Liquid 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 Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. It is not possible to invest directly in an index

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.

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, govern-

ment 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.

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