

ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q2 2019



ABSOLUTE FUNDS



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The Absolute Convertible Arbitrage Fund (ARBIX) delivered a +1.3% return for investors in the 2nd quarter of 2019. Year-to-date returns for the first 6 months of 2019 stand at +4.18%.

The volatility of the Absolute Convertible Arbitrage Fund remains very low (ARBIX standard deviation since its conversion to a mutual fund on 8/14/17 is 1.33%) despite periods in the markets where credit spreads, equity volatility and interest rates move up and down significantly. For example, May was a difficult month in the 2nd quarter for investments having exposure to credit and/or equities as high yield sold off more than 2% and equities declined more than 6%. Despite those negative moves during May, ARBIX preserved investor capital and remained flat for the month as our long volatility exposure counteracted the move wider in credit.

After a slow start to the year for new issuance (just 3 deals priced in the month of January), the pace of primary issuance continues to steadily pick up as the year progresses. Through June 30, 2019, \$25.9 billion convertible new issues have come to market which annualizes to almost exactly the \$52 billion that came to market in 2018 (source: Barclays Research). Most importantly for ARBIX, the long-term trend of small and mid cap companies as the most frequent issuers of paper continues as they make up about 80% of the new deals priced. And, many of these small and mid-cap companies have only issued convertible bonds (no straight corporate bonds) which means our fund is offering investors a source of credit that can only be extracted through a focused convertible arbitrage portfolio.¹

“...Despite those negative [market] moves during May, ARBIX preserved investor capital and remained flat for the month as our long volatility exposure counteracted the move wider in credit...”

The most active issuers of convertibles continue to be growing technology companies. Specifically, cloud-based software companies have been the most active convertible issuers year-to-date as their high growth rate stories suit the appetites of long only investors and their clean balance sheets appeal to arbitrageurs like us. We have recently seen some repeat issuers of convertibles such as Coupa Software and Q2 Holdings come to market in the 2nd quarter and be well received by convertible investors already familiar with their growth stories and credit profiles. It is also important to note that 26 different industry groups have issued convertibles this year alone which helps to easily construct a widely diversified portfolio in terms of industry exposures.

As equity prices generally move higher, the convertible market gradually moves more in the money and more sensitive to equity volatility moves. According to Barclays, about 44% of the market is now equity sensitive, 35% of the market is balanced between equity sensitivity and bond sensitivity, and 21% is credit/rate sensitive. Given the current profile, the convert market has a high degree of volatility sensitivity which will continue to act as a natural hedge for arbitrageurs in the event of a sell-off in credit and/or equities.

Return expectations for traditional fixed income have decreased given the fall in interest rates and the tightening of credit spreads. We believe ARBIX may offer a different source of return for investors seeking a moderate return in the credit markets.

¹ If a public company issues no other debt other than convertible bonds, the only way to isolate the debt of that company is by buying the convertible bond and shorting the stock of the same company

Quarter-End Performance for ARBIX: As of 6/30/19, the 1 year, 5 year and 10 year annualized performance was 4.50%, 3.76% and 6.21% 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 prospectus, the Absolute Convertible Arbitrage Fund's Total Annual Operating Expense ratio (gross) for Institutional Shares is 1.75%. 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 1.60% through August 1, 2019 (the "Expense Cap"). This Expense Cap 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.

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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