ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q2 2020

ABSOLUTE FUNDS

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The Absolute Convertible Arbitrage Fund (ARBIX) delivered a +4.46% return for investors in the 2nd quarter of 2020. Year-to-date returns for the first 6 months of 2020 were +2.18%. Despite the Covid-19 crisis, the Fund recently established a new high water mark in value. Once again, the Fund has proven it is foremost focused on risk. Focusing on capital preservation first helps not only limit drawdowns, it also can put the Fund in a position of strength to make timely purchases and potentially profit from market dislocations when investor nervousness peaks.

As stated in our first quarter 2020 commentary, the pandemic had created credit conditions where the "return potential may have doubled in a very short time." The stated boost in return expectations was based on much wider implied credit spreads as well as convertible prices trading multiple percentage points below fair value. Much of the temporary move lower in the first quarter was due to forced selling due to redemptions from long only funds.

Since the end of the first quarter, we have seen this forced selling abate and new money enter the convertibles market again. Average implied credit spreads in the fund's portfolio have narrowed from about 900 over to about 700 treasuries and our convertible investments have moved closer to fair value but still remain about 2% cheap, on average. Despite the correction and subsequent partial rebound, we believe the secondary market for convertibles remains very attractive relative to where it has been priced over the last number of years. The major reason we feel convertibles remain attractive has been the historic rise of new issuance since the beginning of the pandemic.

To whit, the total new convertible issuance for the first six months of 2020 was $71.6 billion ($57 billion of which was in the 2nd quarter). That compares to annual average convertible issuance of $45 billion the preceding 3 years. As a result of this huge uptick in new issuance, the size of the U.S. convertible market now exceeds $300 billion (up from $230 billion at the end of 2019). This is very good news for arbitrageurs like ourselves because more issuance means more opportunities to find undervalued securities.

The expanding new issue market has also created more diversification opportunities for the portfolio. We believe an increased number of positions may presently create further balance across the Fund. Given the tremendous uncertainty regarding the Covid-19 crisis, like when and if a vaccine will become available, the freedom to further diversify investments is a welcome development in managing risk. In addition, secondary trading volume has expanded greatly with all the new issuance providing more opportunities to potentially profit from trading around positions as convertible valuations fluctuate back and forth.

We have always said that healthy convertible market supply and demand conditions, wider credit spreads and increased equity volatility, are the ideal ingredients for strong risk/reward returns ahead. Presently, the environment is providing us these ideal conditions.

Over the years, investors have repeatedly asked what conditions make our convertible arbitrage strategy particularly attractive. We have always said that healthy convertible market supply and demand conditions, wider credit spreads and increased equity volatility, are the ideal ingredients for strong risk/reward returns ahead. Presently, the environment is providing us these ideal conditions. More specifically, long only investors continue to own the majority of convertibles while hedge funds remain in the minority using limited leverage. Broker dealers continue to have minimal proprietary positions. The new issue market has expanded the size of the U.S. convertibles market by 30% in just 6 months. Small and mid cap companies continue to be the most frequent issuers of paper making up 70% of the recent issues where the majority of pricing inefficiencies recur. Credit spreads remain wide and equity volatility persists. All of these current conditions leave us excited about the future of our strategy and the return prospects for the fund during these uncertain times.

See Reverse for Definitions and Risks

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INVESTMENT ADVISERS

Quarter-End Performance for ARBIX: As of 6/30/20, the 1 year, 5 year and 10 year annualized performance for the Absolute Convertible Arbitrage Fund was 4.33%, 4.37% and 4.91% 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 1.99% and the net expense ratio is 1.74% 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.

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.

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