ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q4 2018

Q4 & 2018 REVIEW

2018 proved to be a year of wild swings which moved almost all investments into negative territory. Our fund proved to be resilient posting a positive return for 2018 and a slight negative return for Q4. This was achieved despite convertible valuations cheapening, credit spreads widening 150 basis points and the 5 year risk free rate rising 30 basis points as well. In other words, despite underlying bond values getting hurt by credit spreads and interest rates, and cheaper convertible valuations, we still managed to preserve investor capital and generate positive returns. The long equity volatility aspect of convertible arbitrage worked well to offset a negative backdrop for bonds.

In our third quarter 2018 commentary we wrote "we purposely ended the quarter with excess cash as we gradually became more cautious about valuations." In addition, we explicitly expressed concerns about technology stocks and the potential risk of a momentum reversal. Our disciplined approach to hedging each convertible position by shorting the underlying equity, combined with our unwillingness to chase lofty valuations, proved again to be a prudent approach to preserving investor capital in extremely difficult markets.

Fortunately, the rise in interest rates the past few years has increased convertible new issuance which certainly helps to replenish our opportunity set and increase the chances of finding undervalued securities. Convertible new issuance in 2018 exceeded $52 billion, up about 40% from 2017, and the trend of greater issuance is expected to continue in 2019.

The selloff in credit and the increase in equity volatility has created the most attractive secondary market valuations we have seen in years. We are taking advantage of the recent repricing of convertibles by deliberately deploying our excess cash and picking away at names we know very well. We expect to continue to add exposure in the first quarter of 2019 while also saving dry powder for an expected rebound in new issuance after a recent quarterly lull. Our portfolio, as always, remains well diversified among industry groups and well balanced among trade types from credit to total return to in-the-money volatility trades.

2019 OUTLOOK

We do not depend at all on forecasting market directions. We generate returns from intensely researching small and mid cap companies and identifying convertible securities that are trading below fair value from an implied credit basis. We own positions that we believe will move toward fair value while simultaneously offering a positive yield carry and the potential to trade deltas. The core strength of convertible arbitrage is that it is a hedged strategy, unlike equity long/short, where within a specified time frame the investor is assured a return to fair value as the bond matures or is called away. This forcing to fair value mechanism means the investor is long a buy-and-hold strategy that carries less uncertainty than other "relative value" hedge strategies as to when or if the security will trade to its fair value. As convertible securities cheapen, as they did in 2018, the expected annualized return for the portfolio rises in the years ahead.

Barclays research recently issued a report highlighting why they believe U.S. convertibles are well positioned. The reasons they cited include long volatility exposure, short duration, higher current income, exposure to industries with better credit prospects such as technology and healthcare, limited exposure to energy and retail, a wide palette of securities across sectors, market caps, credit quality and profiles which aid in constructing portfolios, significantly higher liquidity than high yield, a robust new issue market and a continued low expected default rate. We believe Barclays is right across the board and our strategy is well positioned to generate attractive returns especially given the rise in rates, higher volatility, the cheapening in the secondary market and the continued resurgence in new issuance.

OUR PROCESS

The convertible marketplace is a niche market best suited for focused, experienced, convertible specialists who grind away daily to extract nickels and dimes in a tightly risk controlled manner. At around $200 billion in market value and about 500 securities, the opportunity set is finite and best suited for smaller players.

Our process requires extreme focus and discipline. The vast majority of companies we target do not have straight bonds outstanding and are typically small and mid cap companies. Therefore, our analysis requires dedicated, bottom-up, internally generated credit work which establishes our own unique opinion of the credit quality of the company. Company filings, news events and research reports are continuously monitored and analyzed for any changes in business developments and credit quality. Our strategy also requires name by name modeling of securities where inputs such as equity volatility, credit spreads, interest rates, delta hedges, stock loan rates, takeover provisions and secondary market prices continuously change by the minute. Newly issued convertibles often involve new companies coming to market in a 24 hour period which requires access to deals and mandates that we perform fast and focused research and analysis. (continued on reverse)

See Reverse for Definitions & Risks

(continued)

We run a truly hedged, total return strategy where investor returns can be generated from multiple sources adding up to a total return package. Returns may come from positive carry which includes both the current yield on the long bond position and the yield from the cash generated by going short the underlying equity. Both the long and short sides of the carry equation have improved significantly of late with Fed Funds now above 2%. Returns may also come from delta trading the underlying equities as stocks move up and down. As stocks become more volatile, delta trading becomes more profitable. As valuations move from cheap to expensive and back, we trade around our positions to enhance returns. Special situations such as cash takeovers and exchanges add to returns as well.

Preservation of capital is always a key focus. The downside risk in any position, and the portfolio as a whole, is very tightly controlled. The potential upside reward in any trade takes a back seat to what we could lose if we are wrong. Convertible securities are part bond and part equity; hybrid securities with convex equity exposure that limits the downside and allows for the majority of the upside. As arbitrageurs, we take an additional hedging step leaving us long credit and short equity in the same company which tightly controls our net risk. Our conservative approach is why we are still managing money after 16 years.

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

DEFINITIONS: The delta is a ratio comparing the change in the price of an asset, usually a marketable security, to the corresponding change in the price of its derivative. For example, if a stock option has a delta value of 0.65, this means that if the underlying stock changes in price by $1 per share, the option on it will change by $0.65 per share, all else being equal. Delta trading is the process of of adjusting deltas (hedges) up or down for moves in the underlying equity. Positive yield carry of an asset is the return obtained from holding it. One basis point is equal to 0.01%

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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