

# ABSOLUTE CEF OPPORTUNITIES [ACEFX]

## PORTFOLIO COMMENTARY

Q1 2025



ABSOLUTE FUNDS

### CEF STRATEGIES

#### PORTFOLIO MANAGEMENT TEAM:

**Kevin McNally**  
Portfolio Manager

**Patty Santorella**  
Co-Portfolio Manager

The Absolute CEF Opportunities (ACEFX) generated a return of + 0.68% for the first quarter of 2025.

The Fund posted positive returns during a tough quarter for the equity markets bolstered by both our special situations and the relative value portions of the portfolio. With the S&P 500 down over 4% in the quarter, the Fund also benefitted from the hedges we had in place to mitigate different factor risks presented by our bottom-up process.

### THE MANAGERS

Since we are new to managing the fund, let's take a step back and review our investment process. As lead portfolio manager of the Fund and other products at Absolute, I have spent my entire thirty three-year career focusing solely on the closed-end fund\* (CEF) marketplace. For the first eleven years I worked for large Wall Street wirehouses writing research on CEFs. The next eleven years I worked to assist asset managers in creating, distributing and running CEFs. For the past eleven years, I have been running hedge funds and sperate accounts that look to arbitrage the inefficiencies in the CEF space. Why eleven years? I have no idea!

My partner, Patty Santorella has over fifteen years of hedge fund experience. We worked directly together at a previous firm where she was Head of Operations. She then left to become the Head Trader at a LA-based hedge fund, before we reunited at Absolute. We believe that our skill sets complement each other's perfectly.

### CLOSED-END FUNDS

U.S.-listed closed-end funds are similar to Exchange Traded Funds (ETFs), except for one major factor – it is very difficult to transact at Net Asset Value (NAV) in CEFs. Both are mutual funds governed by the Investment Company Act of 1940, and both have their shares trade on an exchange, rather than transacting directly with the advisor. However, ETFs have a daily creation/redemption process where large institutions can create or redeem new shares. This may allow them to arbitrage any price inefficiencies and keep price very close to NAV. CEFs do not have this feature, which can lead to large discrepancies between price and NAV. In fact, as of March 31st, 2025 the largest discount in the space was over 50%, and the largest premium was almost 90%. We believe this stems mostly from the fact that the majority of CEF shares are held in retail accounts. Most holders are buy and hold investors who might not pay close enough attention to the underlying values of these quirky funds. Perhaps more importantly, they also might not participate in most corporate actions, even the most profitable ones. That's where we come in – we pay very close attention to every CEF on a minute to minute basis. We do our best to gobble up these funds when prices get dislocated from their true underlying values, both on the long\* and the short\* side. We also invest across asset classes, so we can span the universe of equity funds, fixed-income, municipal funds, and those investing in real assets such as commodities or real estate.

When we launched our first fund in 2014, we envisioned investing the majority of our assets in "Relative Value" opportunities. The type that I discussed above. A CEF that typically trades at a 5% discount, that we often buy at a 15% discount, and one where we see a definable catalyst that has potential to help get that fund back to its mean valuation. However, since 2021 we have focused more on "Special Situations" than in our early years. These Special Situations include CEFs that are conducting tender offers\*, open endings, or conversions to ETFs – each of which may provide opportunity for us to buy the fund at a discount and potentially exit at or close to NAV. We also can arbitrage rights offerings and fund mergers. Fortunately, these opportunities have been available in recent years.

### INVESTMENT PROCESS

As I mentioned, if Special Situations present themselves, we want to focus on those opportunities first. They have a defined end date and we strive to get a good grasp of the rate of return while also hedging the underlying risk. If special situations are abundant, as we witnessed in 2024, we may have 75%-90% of the portfolio focused on these opportunities.

We also are constantly on the hunt for relative value investments. In 2024, CEF valuations narrowed steadily. There were certainly one-off opportunities to invest in over-sold funds, but in historical terms, those opportunities slowly dried up as discounts narrowed. However, as is often the case in our opinion, we saw CEF discounts widen out at year-end, which allowed us to buy certain funds cheaper than usual. We are careful in these situations to only invest in funds that have a definable catalyst to potentially correct the pricing inefficiency over the short to intermediate-term. A good example

(Definitions and risk disclosure on last page)

Continued

of this is a fund that is trading at a discount that is wider than its peer group average, and wider than its own averages, on both an absolute basis\* and when measured in standard deviations\* (Z-score), while also having the highest yield in its peer group. We also employ fundamental research in an attempt to avoid dividend cuts. If the yield is there and the dividend is stable, retail investors should find it.

So far, this process is 100% bottom-up. One of the final steps in the process is hedging any factor risks we are uncomfortable with. Typically, the fund will average 50% net long. As of 3/31/25 the Fund's net exposure was 51%. We want that net exposure to come from general equity funds or low-volatility fixed income funds, not sector-specific funds or overly volatile asset classes.

For instance, two of our largest positions coming into the year were a healthcare fund (with an overweight in biotechnology), and a technology fund. These sector-specific CEFs, in our view, offered a large Internal Rate of Return (IRR)\* coming from an upcoming tender offer, but the underlying investments left the Fund exposed to more risk than we were comfortable with. We strive to hedge our exposure to specific sectors. The Fund will often have exposure to emerging market equities or bonds, which are also examples of factor risks we hedge against. Other examples include country funds, over-exposure to high yield or senior loan funds\*, MLP funds\*, etc.

Our preference is to hedge CEF exposure by shorting a similar CEF trading at premium to NAV. This can benefit the Fund in two ways. First, not only can the short help position against a sell-off in the underlying market, it can also lessen overall risk against CEF valuation declines (discounts widening). However, in our opinion, it gets better than that – during large drawdowns\* premium CEFs see their valuations deteriorate more than discounted funds. In other words, this offers us positive convexity\* on the short side if the underlying markets move against us.

If we cannot hedge with a premium CEF, we will attempt to hedge by shorting a corresponding ETF, or in some cases, a basket of ETFs. This may help shield the Fund from moves in the underlying markets, but not against CEF discount widening. We feel using an ETF of CEFs, where appropriate can help in both scenarios.

The Fund's top performers for Q1 were a mix of long and short investments coming from both special situations and relative value investments, in addition to ETF hedges. We were starting to get concerned that special situations were not making the comeback we had hoped, but were pleasantly surprised by a wave of rights offerings\* being announced. We have already closed two rights offering in 2025 and are currently in the midst of four more.

### Q1 COMMENTARY

In the quarter, we saw CEF discounts narrow by about 150 bps starting at nearly 6% and moving to under 4.5% (Figure 1). While this move wasn't massive, it did provide a nice tailwind to the portfolio. This also brought the average discount from wider than average to more narrow. As of this writing, according to Morningstar, the average is back out to 5.5%.

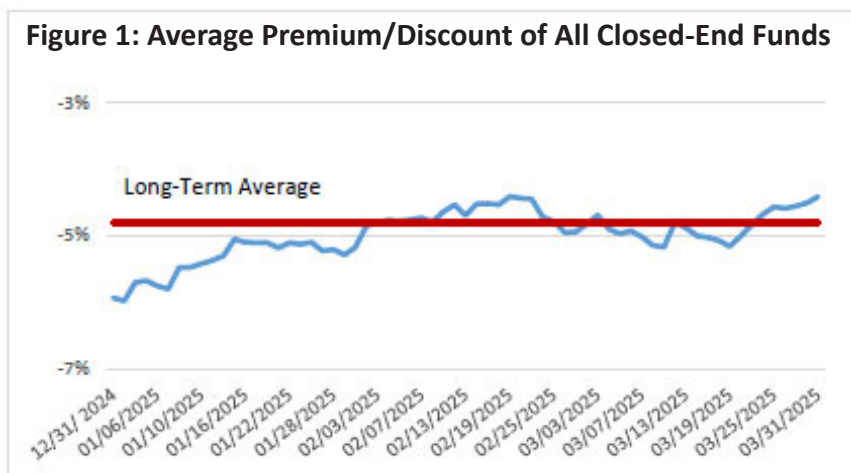
All in all, we are very encouraged by the amount of Relative Value opportunities we are seeing as a result of April's market volatility coupled with a surprising amount of rights offerings. This is on top of two large tender offers, and a few more we suspect will wrap up by year end.

By the end of Q1 the Fund's holdings were substantially similar to our hedge fund and managed accounts. However, there are differences in the Fund's position sizes due to diversification and leverage limits of the mutual fund structure.

As always, thank you for your continued trust in us. Please don't hesitate to reach out to me or Patty with any questions.

- Kevin J. McNally, Portfolio Manager

**Figure 1: Average Premium/Discount of All Closed-End Funds**



Source: Morningstar

See the following pages for \*definitions, risk disclosures, expenses, and important information regarding the Fund's change of portfolio management and strategy in October 2024

On August 1, 2024, the Fund added Mr. McNally and Ms. Santorella as portfolio managers to the Fund and began utilizing CEFs as part of its non-principal investment strategy. On October 22, 2024, the Fund removed Mr. Compson, the Fund's portfolio manager since inception, as a portfolio manager, and changed its strategy to utilize CEFs as the Fund's principal portfolio investment. Different investment strategies may lead to different performance results. The Fund acquired all of the assets and liabilities of the Absolute Strategies Fund, a series of Forum Funds (the "Predecessor Fund"), in a tax-free reorganization on September 8, 2023. In connection with this acquisition, shares of the Predecessor Fund's Institutional Class shares were exchanged for Institutional Class shares of the Fund. The Predecessor Fund had an investment objective and strategies that were, in all material respects, the same as those of the Fund, and was managed in a manner that, in all material respects, complied with the investment guidelines and restrictions of the Fund. The Fund's performance for periods prior to September 11, 2023 is that of the Predecessor Fund. The Fund is a continuation of the Predecessor Fund, and therefore, the performance information includes the performance of the Predecessor Fund.

**Quarter-End Performance for ACEFX:** As of 3/31/25, the 1 year, 5 year and 10-year annualized performance for the Absolute CEF Opportunities was -5.56%, -5.25% and -3.22% 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 CEF Opportunities (ACEFX) Total Annual Operating Expense ratio is 6.65% (gross) and 5.98% (net) through July 31, 2026. 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 1.79% through July 31, 2026 (the "Expense Cap"). 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.*

**\*DEFINITIONS:**

**Closed-end fund (CEF):** A closed-end fund (CEF) is a type of investment company that issues a fixed number of shares through an initial public offering (IPO), and those shares are then traded on an exchange, like a stock.

**Long vs. short:** Long vs. short: If an investor has a long position, it means that the investor has bought and owns securities, such as shares of stock. If the investor has a short position, it means that the investor believes that the price will drop in the future and has borrowed shares and sold them, but has the obligation to buy them in the future and return them to the lender."

**Tender offers:** A tender offer is a public invitation from a party to shareholders of a company (the target) to sell their shares at a specified price for a specific period. In the CEF market, the price is usually set at a small discount to NAV.

**Absolute basis:** absolute basis refers to the raw numerical value.

**Internal Rate of Return (IRR):** IRR, or internal rate of return, is a metric used to estimate the profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis.

**Drawdown:** A drawdown is the investment loss experienced from a high point to a low point.

**Convexity:** Convexity is the curvature in the relationship between bond prices and interest rates. It reflects the rate at which the duration of a bond changes as interest rates change.

**Standard deviation:** Standard deviation is the statistical measure of market volatility, measuring how widely prices are dispersed from the average price.

**Senior loan funds:** Senior loan funds invest in loans made to companies with below-investment-grade credit ratings. The loans often secured with assets of the company and are variable rate in nature."

**MLP funds:** Master Limited Partnerships (MLPs) are business ventures in the form of a publicly traded limited partnership. It combines the tax benefits of a private partnership with the liquidity of a publicly traded company. In the CEF market, these MLPs tend to focus in the energy sector and one oil and gas pipelines in particular.

**Rights offerings:** A rights issue is an invitation to existing shareholders to purchase additional new shares in the company.

## IMPORTANT RISK INFORMATION

### Closed-End Fund Risk

The Fund expects to invest primarily in CEFs, and may also sell CEFs short, the shares of which may trade at a premium or discount to their net asset value. CEFs differ from open-end investment funds in that holders of interests in a CEF do not have the right to redeem their interests on a daily basis at a price based on net asset value. The CEF shares in which the Fund may trade may be traded on one or more U.S. or foreign exchanges.

The Fund may also trade shares of CEFs that trade sporadically, are illiquid and may not be traded on an exchange. CEFs may be subject to various trading restrictions. The Fund will generally not have any control over the investments made by CEFs and will generally only have limited access to information about the CEFs and their investments. CEFs generally trade independently of each other and, at times, may hold economically offsetting positions. At times CEFs may make in kind distributions which could result in the Fund owning securities that were in a CEF's portfolio. These securities may be illiquid and may take considerable time to sell. If a CEF converts to open-end status, such conversion may result in the Fund holding shares in an open-end fund. As a part of such conversion the new open-end fund's withdrawal terms may have associated withdrawal fees, which often decline over time and consequently, if such open-end fund's shares are held by the Fund, certain withdrawals by the Fund from such open-end fund may be subject to a withdrawal fee. Certain CEFs may also employ leverage, which may amplify investment gains and losses.

Rights may be considered more speculative than certain other types of investments in that they do not entitle a holder to dividends or voting rights with respect to the underlying securities. If a right held by the Fund is not exercised by the date of its expiration, the Fund would lose the entire purchase price of the right

Asset allocation decisions may not always be correct and may adversely affect Fund performance. 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. 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 investment 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](http://www.absoluteadvisers.com). Please read the prospectus carefully before you invest.**

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