ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q2 2023

ABSOLUTE FUNDS

The Absolute Convertible Arbitrage Fund (ARBIX) delivered a positive return of +1.52% in the second quarter of 2023. The Fund has achieved a YTD return of +2.85%.

Markets experienced relatively calmer conditions in the second quarter following a somewhat turbulent start to the year that was characterized by a regional banking crisis. It is important to note, however, that market conditions impacting the convertible arbitrage strategy - credit spreads, interest rates, equity volatility, and the Fed Funds rate, are constantly changing. These conditions do typically offset each other because of the hybrid and hedged nature of the strategy. This was the case in the second quarter.

The Federal Reserve continued its gradual increase of the Fed Funds rate. The 25 basis points move was relatively small compared to the 450 basis points of tightening implemented in the preceding 12 months. We are actively monitoring the impact that these higher rates may have on business conditions for our underlying portfolio of companies. The Fund does directly benefit from higher interest rates by earning a higher rebate from cash raised for short stock hedges and an enhanced return on excess long cash. These factors positively impacted the strategy by supporting liquidity and providing optionality in price discretion for convertible purchases.

CONVERTIBLE ARBITRAGE PORTFOLIO MANAGEMENT TEAM:

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A general market indifference towards smaller cap names persisted for most of the quarter with an eventual resurgence of sentiment in June. Theoretical convertible valuations moved closer to fair value and there was a moderate rebound in buying busted credit names towards the end of the quarter. Convertible bond prices were supported by credit spreads which tightened by approximately 50 basis points. This tightening, however, was offset by an equivalent increase in underlying interest rates and a significant decrease in equity volatility which negatively affected embedded call option values.

For an overall Fund gross Profit & Loss (P&L) perspective for the quarter, appreciation of convertible bond prices relative to the underlying stock hedge had a positive impact of +75 basis points, the interest rate hedge contributed +15 basis points, yield/carry added +78 basis points, and trading activities accounted for +14 basis points. It is notable that yield/carry has increasingly become an important driver of return in both absolute and relative terms.

Continued expectations for a major resurgence of convertible bond issuance have yet to materialize. A total of 26 deals were priced raising $14.5 billion in the second quarter. Year-to-date, the issuance stands at $28 billion from 51 deals. This is an improvement compared to 2022 and aligns with the issuance pace prior to 2020. It is still well below the levels of 2020 and 2021 (source: Kynex). Barclays research suggests that second-half issuance could significantly improve due to recent equity price rallies, tighter credit spreads, and more favorable growth prospects for technology firms, which historically have been the largest issuers of convertible bonds. We do anticipate a potential pickup in issuance once the second-quarter earnings season concludes.

The size of the convertible market currently stands at $264 billion in face value. This is similar to its level in late 2019 before the significant surge in issuance during the Covid crisis. Small and mid-cap companies represent the majority (74%) of the 521 convertible issues in the US market. Non-rated bonds constitute 86% of these securities (source: Barclays). ARBIX has been focused on small and mid-cap non-rated bonds because we believe this is where the largest inefficiencies exist within the convertibles market. We would welcome an increase in issuance as valuations are approaching fair value.

With the average US convertible bond priced near par (100.4), there are ample opportunities to maintain a balanced approach among various trade profiles—equity-sensitive, balanced, and credit—allowing the potential for steady returns despite unpredictable changes in underlying market forces.

(Definitions and risk disclosure on reverse)

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INVESTMENT ADVISERS

Quarter-End Performance for ARBIX: *As of 6/30/23, the 1 year, 5 year and 10 year annualized performance for the Absolute Convertible Arbitrage Fund was 6.10%, 4.19% and 4.25% 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% and the net expense ratio is 1.51% through August 1, 2023. 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 1.20% through August 1, 2023 (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:

The Fed Funds Rate (the federal funds rate) is the target interest rate range set by the Federal Open Market Committee (FOMC). This is the rate at which commercial banks borrow and lend their excess reserves to each other overnight.
A **Basis Point** (or bps) is 1/100th of a percent.

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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