ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q2 2021

ABSOLUTE FUNDS

The Absolute Convertible Arbitrage Fund (ARBIX) returned +0.18% in the second quarter of 2021. The year-to-date return through 2Q 2021 stands at +1.43%.

Convertibles are hybrid securities simultaneously affected by a number of embedded factors that drive performance. These factors include credit spreads, volatility, risk free rates, stock loan rates, money flows/supply and demand, new issuance, secondary trading opportunities, takeovers, exchanges, buybacks, etc. Credit, volatility and interest rates are the dominant three forces that affect long term valuations while money flows/supply and demand push theoretical valuations around in the short term.

Overall high yield credit spreads tightened further in the second quarter and were supportive of credit throughout the high yield straight bond market, but this did not spill over and support credit spreads in convertibles. The Barclays US High Yield B spread tightened 39 basis points and ended the second quarter at 294 bps. However, non-investment grade convertible bond implied spreads remained much wider than high yield ending the quarter at 439 bps.

Risk free rates (specifically, the 5-year US Treasury which most closely matches the duration of the convertible bond market), were a neutral factor for convertibles basically ending the quarter right where they started. However, market sentiment regarding the Fed's handle on inflation expectations does seem to wax and wane with more frequency as the economy continues to reopen with less issues around Covid. ARBIX, despite being a short duration portfolio of small/mid cap hedged trades, where credit and vol have the greatest impact, continues to maintain a portfolio interest rate hedge in case we experience an unexpected jump in risk free rates before the expected 2022 Fed tapering.

The average convertible bond price now stands at >130% of par making the typical convertible arbitrage trade volatility sensitive. The major headwind for convertible arbitrage in 2Q 2021 was the precipitous decline in realized underlying equity volatility. The Fed backstopped, benign risk environment enveloping the US markets, had a dramatic impact on reducing equity volatility as stocks continued to grind higher with little worry about downside risk. The 30 day historical vol for the Russell 2000 was cut in half in 2Q 2021, beginning the quarter at 33 and ending at 16. The same was true for larger stocks as 30 day vol for the S&P 500 was also cut in half. The decline in volatility made it very difficult for arbitrageurs to monetize changes in delta hedges in the quarter and lower future vol assumptions directly affected the embedded calls of convertibles pressuring theoretical values.

The convertible market also continues to absorb all the heavy new issuance over the past 18 months which has pressured valuations and cheapened convertible theoretical valuations - especially among non-investment grade convertibles which now trade at about a 1.4% discount to theoretical value. Longer term, new issuance is great for the convert market because it keeps prices below fair value and provides a large, diverse, long term opportunity set with a wide variety of company securities to choose from.

Convertible arbitrage is a bond strategy that offers multiple ways to generate returns but does have an opportunity set based on where interest rates and credit spreads are currently priced. It is also dependent on convertible valuations and the ability to monetize underlying equity volatility. Even though volatility has been very difficult to monetize of late, the good news is that secondary convertible bond prices now reflect substantially reduced volatility assumptions going forward which could provide some unexpected upside if volatility rebounds. And even though credit spreads are generally tight throughout the capital markets, convertible spreads still offer significant relative value despite much lower historical default rates than high yield. And, last but not least, almost all other bond strategies have significant interest rate risk with rates still near historical lows while convertible arbitrage has limited sensitivity to rate movements (see Table 1 on page 2).

In summary, finding a bond strategy that currently offers some return potential above inflation without taking on significant downside risk is difficult to say the least. ARBIX can generate returns from credit spread compression over time (as converts approach maturity/call dates), current yield, volatility monetization, theoretical discounts to fair value, or from trading. Consistent with the Fund's investment objective and principal investment strategy, the Fund's Adviser views convertible arbitrage as a low volatility strategy that is intended to achieve fixed-income-like returns with lower than equity market risk by managing a portfolio that it believes will exhibit less volatility over full market cycles. It may be difficult to get excited about moderate return expectations when constantly distracted by the never ending upside in equities, but ARBIX may offer compelling risk/reward versus other options in corporate credit. ARBIX is a hedged credit portfolio using no leverage, offering daily liquidity, with low sensitivity to interest rate movements. And if volatility rebounds, there is further upside with volatility now priced low and convertible valuations significantly below fair value.

(Definitions and risk disclosure on reverse)

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Quarter-End Performance for ARBIX: As of 6/30/21, the 1 year, 5 year and 10 year annualized performance for the Absolute Convertible Arbitrage Fund was 8.48%, 6.50% and 4.68% 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 1.67% and the net expense ratio is 1.29% through August 1, 2022. 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, 2022 (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.

TABLE 1: ARBIX has been positive in all 8 rising rate environments (measured by the 10 year US Treasury) since its inception in 2002.

	June2003 to June 2004	July 2005 to June 2006	Dec 2008 to June 2009	Oct 2010 to Feb 2011	July 2012 to Dec 2013	July to Dec 2016	9/8/ to 10/8/2018	8/4/2020 to 3/31/2021
Yield Increase (BPS):	*127 bps*	*113 bps*	*128 bps*	*90 bps*	*153 bps*	*96 bps*	*117 bps*	*123 bps*
Barclays Aggregate Index Performance	0.12%	-0.81%	1.90%	-0.93%	-1.62%	-2.53%	-2.88%	-3.70%
ARBIX Performance	7.21%	15.47%	30.33%	3.57%	7.73%	6.26%	3.82%	5.50%

Data Through 6/30/21. Past performance is not indicative of future results. bps = Basis Points. 1 basis point = 1/100th of a percent

DEFINITIONS:

The Barclays US High Yield Bond Index is is a broad-based benchmark that measures the short-term US dollar-denominated high yield corporate bond market. It is comprised of U.S. dollar denominated, taxable corporate bonds that have a remaining maturity of less than 5 years. **The Russell 2000 Index** is a market cap weighted index that includes the smallest 2,000 companies covered in the Russell 2000 universe of United States-based listed equities. The Russell is by far the most common benchmark for mutual funds that identify themselves as "small-cap." **Delta hedging** is an options trading strategy that aims to reduce, or hedge, the directional risk associated with price movements in the underlying asset.

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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