ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q2 2022

ABSOLUTE FUNDS

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The Absolute Convertible Arbitrage Fund (ARBIX) returned -3.07% in the second quarter of 2022. Year-to-date the fund has returned -3.59%.

2022 continues to be a year of stiff headwinds for almost all securities, including convertibles. In more normal times, the hybrid nature of convertibles provides some natural resilience to specific, individual market forces acting up such as higher rates, wider credit spreads or weak equities. But when all three are moving in a negative direction, even a portfolio of hedged convertibles can struggle to provide positive returns. However, when compared to other alternatives in fixed income, credit and equities this year (many of which are down double digits), the fund has again demonstrated its ability to control downside risk.

The first quarter of 2022 was dominated by rising interest rates pressuring bond investments across the board. Even though treasury yields continued to rise in the second quarter of 2022, the larger headwind this past quarter was the weakening in credit markets as high yield spreads widened by more than 200 basis points. In addition, sentiment around equities continued downward with the Russell 2000 posting its worst- ever first half of a year. YTD, unhedged convertibles are down almost -20% for the year, primarily because the underlying equities for convertibles continue to underperform at -33.5% ytd. As a result, valuations for convertibles have cheapened well below fair value as sellers have forced down prices. In summary, almost nothing has been supportive of returns so far in 2022.

From an overall gross P&L perspective for the quarter, convertible bond price depreciation versus the underlying stock hedge had a negative impact of about -337 basis points, while the interest rate hedge positively contributed about +20 basis points, yield/carry +33 basis points, and trading +7 basis points. Convertible theoretical valuations continued to cheapen in the second quarter as sellers were pervasive and a risk-off attitude toward credit risk became the dominant influence.

Given that the Federal Reserve Committee will likely keep its feet forcefully on the brakes until it has inflation under control, our capital preservation mindset will carry on. In practice, this means we will not try to time a market bottom. Instead, we will continue to slowly deploy excess cash and pick away at our highest conviction trades at the right prices - gradually and prudently setting ourselves up for the longer term. Even though convertible valuations are very attractive currently, it could take more time to reach absolute bottom simply because the Fed is not supportive of markets unlike the swift bounces experienced in past years following similar declines in 2020 or 2009. An obvious requirement of our job is to monitor the macro forces pushing markets around and understand how those forces can persist. However, more importantly, we will stay extremely focused on individual companies and keep our bottom-up credit focus as the dominant input in our decision making - remaining undistracted by the noise.

The good news is that the annualized expected return for the strategy has moved significantly higher because of the recent repricing in the overall markets and in convertibles. The average implied credit spread for convertibles is now above 6% and the risk free rate has risen to around 3% versus 1.25% at the start of 2022. Additionally, because we short underlying convertible stocks as part of our hedged strategy, and thanks to the Federal Reserve raising rates, we now receive a positive rebate on our short stock proceeds. This improved rebate will generate more positive carry going forward in addition to new convertible issues that will be coming to market with higher coupons than years past. It is also important to note that the portfolio's underlying companies continue to perform well with no meaningful deviations from our expectations in recent earnings announcements.

2022 will likely continue to test investor patience and conviction across all investments. Without knowing when inflation will be under control, or the cost to the economy of bringing inflation down, it is nearly impossible to pick a market bottom. Fortunately, our strategy is hedged, tightly risk controlled and not reliant on making short-term macro predictions. Even though it has been a struggle so far in 2022, our decades of experience and along with our capital preservation mindset, will continue to serve us well in controlling downside risk while continuously looking to capture under-the-radar opportunities that do not come around very often. Accumulating wealth is as much about not losing money as it is about capturing upside. We pride ourselves on doing both.

(Definitions and risk disclosure on reverse)

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Quarter-End Performance for ARBIX: *As of 6/30/22, the 1 year, 5 year and 10 year annualized performance for the Absolute Convertible Arbitrage Fund was -2.15%, 3.92% and 4.02% 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 1.90% and the net expense ratio is 1.59% 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 1.20% through August 1, 2022 (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 Russell 2000 index is used as a benchmark for US small cap stocks and measures the performance of the 2,000 smallest companies in the Russell 3000 (3,000 of the biggest U.S. stocks). 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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