

ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q2 2025



ABSOLUTE FUNDS

Performance Overview

In Q2 2025, the Absolute Convertible Arbitrage Fund (ARBIX) delivered a return of +1.98%, contributing to a year-to-date return of +4.07% through June 30, 2025.

The quarter began with market turbulence following Trump's aggressive tariff announcements on April 2, dubbed "Liberation Day." While credit spreads initially spiked, they tightened by approximately 50 basis points by quarter-end, initially pressuring convertible valuations but later supporting them. Interest rates, including Fed Funds and the 5-year Treasury yield, remained stable, minimally impacting convertible valuations. Equity volatility surged in early April but gradually declined, ending slightly below its starting point, with a mixed effect on convertible valuations.

New Issuance

The US convertible market saw robust activity in Q2 2025, with 38 deals priced, raising \$31.2 billion and bringing year-to-date issuance to \$56.5 billion. This pace surpasses the record-setting 2020 issuance during the COVID period and reflects growth compared to the \$33 billion, \$54 billion, and \$85 billion issued in 2022, 2023, and 2024, respectively.

Of the 64 US convertible deals issued year-to-date, large-cap companies dominated dollar volume, while small- and mid-cap firms accounted for 58% of the deals. Large-cap, high-credit-quality issuers capitalized on elevated equity volatility with large, zero-coupon convertible deals exceeding \$1 billion. June 2025 saw record trading volumes, the highest since 2014, as investors sold existing convertibles to accommodate new issues. This increased supply led to a 1% cheapening of the US convertible market by quarter-end. Non-investment-grade convertibles traded at implied credit spreads of 413 basis points, compared to 281 for high-yield, a 132-basis-point gap (source: Barclays).

Fund Performance Breakdown

The fund's gross Profit & Loss (P&L) for Q2 2025 reflects the following contributions:

- Convertible bond appreciation relative to underlying stock hedges: +130 basis points.
- Interest rate hedge: -2 basis points.
- Trading activities: +20 basis points.
- Yield/carry: +80 basis points.

ARBIX as Alternative Credit

Investors increasingly view ARBIX as an alternative credit strategy, akin to private credit, which can offer diversification, lower volatility, and compelling returns compared to traditional bond funds. Unlike private credit, convertible arbitrage provides a market-neutral return profile through hedging and seeking to mitigate risk while providing daily liquidity. In Q2 2025, ARBIX reached new highs in performance and assets under management (AUM). We attribute AUM growth to strong performance and investors' recognition of ARBIX as a complementary "third leg" alongside private credit and traditional bonds. We are grateful for our investors' support and welcome discussions about the favorable environment for convertible arbitrage.

Outlook for the Second Half of 2025

We believe the convertible market is well-positioned after recent cheapening driven by increased supply. Implied credit spreads for convertibles are over 100 basis points wider than B-rated high-yield bonds, and implied volatility for embedded options is declining. Strong new issuance provides greater selection and liquidity, with robust trading activity. With half the convertible market facing maturities by the end of 2026, refinancings are expected to continue. Elevated short-term interest rates, driven by the Fed's cautious stance on tariffs, support rebate yields on short stock positions. The secondary convertible market offers a balanced mix of trades—from in-the-money, volatility-sensitive convertibles to at-the-money, high-gamma trades and higher-yielding, credit-sensitive convertibles—helping to enable managers like ARBIX to maintain a diversified, resilient portfolio ready for future market shifts.

CONVERTIBLE ARBITRAGE PORTFOLIO MANAGEMENT TEAM:

Eric Hage & Dan Hage
Managing Directors,
Co-Portfolio Managers

Marc Abizaïd
Credit Analyst

Rebecca Gardner-Johnson
Vice President, Operations

(Definitions and risk disclosure on reverse)

Quarter-End Performance for ARBIX: As of 06/30/25, the 1 year, 5 year and 10-year annualized performance for the Absolute Convertible Arbitrage Fund was 8.05%, 5.23% and 4.80% 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 for Institutional Shares is 1.47% (gross) and 1.41% (net) through July 31, 2025. 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 July 31, 2025 (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:

A Basis Point: (or bps) 1/100th of a percent.

In-the-money: the strike price has already been surpassed by the current stock price.

At-the-money: the strike price is identical to the current market price of the underlying security.

Gamma: the rate of change between an option's Delta (how much the price of an option can be expected to move for every \$1 change in the price of the underlying security or index) and the underlying asset's price. Higher Gamma values indicate that the Delta could change dramatically with even very small price changes in the underlying stock or fund.

Important Risk Information

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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