ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q3 2020

ABSOLUTE FUNDS

Eric Hage, Chief Investment Officer at Mohican Financial Management and Portfolio Manager of the Absolute Convertible Arbitrage Fund

The Absolute Convertible Arbitrage Fund (ARBIX) delivered a +3.81% return for investors in the 3rd quarter of 2020. Year-to-date returns for the first 9 months of 2020 stand at +6.07%. Once again, the fund has shown it has the ability to tightly control risk during times of market stress (i.e., 1Q 2020) and also deliver returns when markets become more sanguine (i.e., 2Q & 3Q 2020).

The fund's return in the third quarter was driven by a number of factors. As stated in our 2Q commentary, *"we believe the secondary market for convertibles remains very attractive relative to where it has been priced over the last number of years."* We entered the third quarter with implied credit spreads in the fund around 700 over, convertibles trading about 2% cheap to fair value and an extremely active new issue calendar. All three of these components contributed to third quarter returns as credit spreads narrowed about 100 basis points, convertible valuations improved to 0.5% cheap and the new issue calendar remained active with 40 deals priced raising $19.7 billion.

2020 performance highlights the credit worthiness of the convertible asset class. Despite the pandemic and economic stresses caused by the shutdown, the convertible bond default rate remains at just over 1% year-to-date as compared to high yield where default rates exceed 5%. 2020 is not unique in terms of convertible default rates significantly tracking below high yield. In 2009 when corporate defaults spiked during the Global Financial Crisis, convertible bond defaults only rose to 2.2% while high yield defaults surged to 17%. Likewise, the long term default rate for convertibles since 2003 is 1.36% while high yield is 3.58% (source: Barclays).

It is important to compare convertible default rates to high yield because convertible arbitrage, at its core, is a credit extraction strategy. Convertible bonds are simply corporate bonds with embedded call options where the investor has the option to convert the bond into a fixed number of shares of stock of the same company. Our strategy, convertible arbitrage, involves going long the convertible bond and shorting the underlying stock so that the embedded call option is hedged leaving us only with exposure to the corporate bond piece. In the short term, the value of the convertible bond is affected by changes in credit spreads and equity volatility which tend to offset each other. However, in the longer term, the strategy is all about avoiding mistakes on the credit side and selectively choosing securities based on higher implied credit spreads versus the actual credit risk of default. This strategy consistently works in delivering moderate single digit returns with low volatility and low beta as long as we invest in convertibles of creditworthy companies and stay disciplined with our hedges (which we do). This is why our security selection process hugely emphasizes in-depth, company by company, bottom up, credit research above all else in choosing investments.

Fortunately, the US Convertibles Market consists of many high growth companies with improving financials and strong business models - especially from the technology and healthcare sectors. Moreover, many of these companies only issue convertible debt and have very clean balance sheets. Most convertible investors buy convertibles because they seek exposure to the underlying equity via an instrument that offers most of the upside with downside protection if they are wrong about their stock picks. As arbitrageurs, our investment approach is to isolate credits of companies unique to the convertibles market, hedge away the embedded call option, and wait while staying hedged by constantly adjusting for stock price changes. It is a long credit strategy, but it is also a long equity volatility strategy because of the dynamic hedging needed to hedge the embedded call option.

The value proposition for the individual fund investor is numerous. Our team's decades of experience in credit analysis and mathematically valuing convertible securities is second to none. We have strong relationships with sell-side firms who bring new issues and trade convertibles in the secondary market providing us with fast access to merchandise at the best possible price. We constantly monitor prices and market movements to take advantage of trading opportunities to enhance returns. We construct a well-diversified portfolio and dynamically hedge each individual position so that we remain equity market neutral and long equity volatility as a hedge versus credit spreads. In summary, our active approach provides investors credit exposure to unique companies in a niche market where default rates are low and credit spreads are attractive in order to achieve desirable fixed income returns uncorrelated to the markets as a whole.

See Reverse for Definitions and Risks

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INVESTMENT ADVISERS

Quarter-End Performance for ARBIX: As of 9/30/20, the 1 year, 5 year and 10 year annualized performance for the Absolute Convertible Arbitrage Fund was 7.09%, 5.46% and 4.74% 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 1.49% through August 1, 2021. 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, 2021 (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.

DEFINITIONS - Correlation is a statistic that measures the degree to which two securities move in relation to each other. Call options are financial contracts that give the option buyer the right, but not the obligation, to buy a stock, bond, commodity or other asset or instrument at a specified price within a specific time period. They may be purchased for speculation, or sold for income purposes.

HEDGE FUND CONVERSION - In August 2017, a hedge fund managed by Mohican Financial Management LLC reorganized into the Fund. The Fund's performance for periods prior to the commencement of operations is that of the hedge fund and is based on calculations that are different from the standardized method of calculations adopted by the SEC. The performance of the hedge fund was calculated net of the hedge fund's fees and expenses. The performance of the hedge fund is not the performance of the Fund, has not been restated to reflect the fees, estimated expenses and fee waivers and/or expense limitations of the Fund, and is not necessarily indicative of the Fund's future performance. If the performance of the hedge fund had been restated to reflect the applicable fees and expenses of the Fund, the performance may have been lower. The hedge fund was not registered under the Investment Company Act of 1940 ("1940 Act") and was not subject to certain investment limitations, diversification requirements and other restrictions imposed by the 1940 Act and the Internal Revenue Code of 1986, which, if applicable, may have adversely affected its performance.

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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Three Canal Plaza, Suite 600, Portland, Maine 04101
(888) 99-ABSOLUTE or (888) 992-2765
www.absoluteadvisers.com
Distributor: Foreside Fund Services, LLC

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