ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q3 2022

ABSOLUTE FUNDS

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The Absolute Convertible Arbitrage Fund (ARBIX) returned +1.21% in the third quarter of 2022. Year-to-date the fund has returned -2.43%.

Market conditions for almost all securities continued to be difficult in the third quarter of 2022. We were pleased to post a small gain in the quarter while most other bond strategies endured significant drawdowns. Credit spreads were relatively stable in the quarter which helped support convertible valuations as selective buyers, like ourselves, added to higher conviction credits. Average implied credit spreads for convertibles ended the quarter at almost 600 over. Equity volatility was a small headwind for convertibles as 30 day historical volatility for the Russell 2000 fell from 35 to 26. But the big factor that dominates all others continues to be the dramatic rise in interest rates in 2022 as the Fed battles inflation. During the third quarter of 2022 alone, the Fed raised the effective fed funds rate from 1.58% to 3.08% which caused continued pain in the treasury market as the 5 year treasury yield rose more than 100 basis points to 4.09%.

From an overall gross P&L perspective for the quarter, convertible bond price appreciation versus the underlying stock hedge had a positive impact of +61 basis points, while the interest rate hedge positively contributed +40 basis points, yield/carry +38 basis points, and trading +13 basis points. Convertible theoretical valuations overall ended the quarter 50 basis points below fair value on average. The convertible market has been repriced, reflecting the new environment for rates and credit spreads leading to significantly higher return expectations going forward, especially when compared to the start of 2022.

Higher interest rates going forward will help the convertible arbitrage trade in the years to come. While new issuance has been light for convertibles and all corporate bonds this year, when it inevitably returns, the new convertible deals will be priced to reflect the adjusted market environment of higher interest rates and wider credit spreads. This repricing means higher coupons and better overall terms for convertible arbitrage buyers in terms of lower premiums and heavier hedges. In addition, the dramatic rise in the fed funds rate greatly improves the rebates we receive on our stock short positions, which will reflect higher deltas on new deals. In sum, higher coupons, lower conversion premiums and higher stock loan rebates will significantly improve the static carry and expected return for convertible arbitrage in the years to come.

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Nobody knows when the Fed will reach a point where it will feel comfortable in not raising the fed funds rate further. As of now, it seems evident we are not there yet as inflation data has not significantly improved. As we said in our second quarter commentary, we will continue to maintain a capital preservation mindset while waiting for the Fed to tame inflation. More importantly, we will remain highly focused on fundamental, bottom up credit research, company by company.

Timing a market bottom is not possible but it does not prevent us from carefully deploying capital and gradually adding to our favorite securities. We expect to continue to invest this way through 2022 and likely into 2023 as taming inflation could prove more difficult than the wishful thinking that seems all too common in the investor community. Moreover, there could be some significant money moving away from poorly performing funds and therefore some risk of forced redemption selling. In summary, without knowing how rough things will get nor for how long, we will continue to preserve capital, stay liquid and gradually put new money to work in an environment where the expected return expectations for convertible arbitrage have greatly improved.

(Definitions, standardized performance and risk disclosure on reverse)

Quarter-End Performance for ARBIX: *As of 9/30/22, the 1 year, 5 year and 10 year annualized performance for the Absolute Convertible Arbitrage Fund was -1.74%, 3.81% and 4.05% 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 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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