We believe the market remains in a sweet spot for the Fund’s convertible arbitrage strategy. The Fund’s performance speaks for itself. ARBIX returned +2.8% in the first quarter. The annualized return over the last three years is +7.7%. The Fund has been positive 36 out of the last 38 months. Fund volatility has been extremely low and beta to traditional stocks and bonds has also been close to zero (please see fact sheet for detailed figures).

The Fund entered 2019 with some of the most attractive secondary market valuations for convertible bonds that we have seen in years. These valuations reflected wild swings in asset prices in 2018. The Fund was well positioned to capitalize on the inefficiencies that manifested during those swings.

One of the reasons for the Fund’s consistent performance is that it utilizes a total return approach across credit, yield, and volatility. Over time there has been a natural offset between these three areas that does not exist in more traditional bond markets because in traditional bond markets, volatility isn’t a specific factor. For example, as convertible prices increased during the first quarter of 2019 and our equity hedges got heavier, the Fund’s portfolio inherently became more sensitive to future moves in equity volatility and less sensitive to both credit moves and interest rates. Additionally, through security selection, we can actively bias the portfolio toward the area that may be cheap when another is more expensive. The portfolio sensitivity weights naturally move toward buying low (now volatility) and selling high (now credit) and vice versa when these moves reverse.

Many investment-grade and high-yield corporate bonds have rallied this year in response to the Fed’s dovish pivot in the first quarter. In these markets, tightening credit spreads and low overall yields may translate to lower returns going forward. While both investment-grade and high-yield markets have witnessed recent up and down swings, convertible arbitrage has been more consistent and less volatile. Furthermore, whereas high yield credit spreads are well below historical averages, we would characterize the convert universe as “moderately cheap.”

Attractive new issues continue to come to market. Robust issuance is important to maintaining healthy valuations and a large variety of arbitrage opportunities. 2018 was an exceptionally strong year for convert issuance and the new issue market continues to exhibit signs of strength with 24 new deals raising $11.9B in proceeds during Q1 2019. Once again, non-rated, small and mid-cap companies dominated issuance in the first quarter, which fits precisely with our focused approach on that inefficient part of the market.

As a reminder to our investors, we have been managing this Fund since 2002. During those 17 years we’ve witnessed many different types of markets with varying degrees of opportunity. While always keeping an eye on risk, we are constantly adapting our approach to best match the given opportunity. The potential benefits to the strategy and Fund are well established – moderate returns with low volatility and low beta to traditional stocks and bonds. As always, this remains our focus for the Fund.
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 delivery obligations. The Fund may leverage transactions which may only be raised or eliminated with the consent of the Board of Trustees.

As stated in the prospectus, the Absolute Convertible Arbitrage Fund’s Total Annual Operating Expense ratio (gross) for Institutional Shares is 1.75%. 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 1.60% through August 1, 2019 (the “Expense Cap”). This Expense Cap may only be raised or eliminated with the consent of the Board of Trustees.

DEFINITIONS: Beta is the measure of a fund’s relative volatility as compared to the S&P 500 Index which by definition is 1.00. Accordingly, a fund with a 1.10 beta is expected to perform 10% better than the Index in up markets and 10% worse in down markets.