ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q2 2018

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PORTFOLIO COMMENTARY :

In the second quarter of 2018, the Absolute Convertible Arbitrage Fund delivered a modest positive return for investors despite a number of factors making conditions difficult. Credit spreads were flat and interest rates rose which had a small negative effect on underlying bond valuations. Smaller cap stocks grinded higher as the Russell 2000 gained close to 8%, but realized volatility for these stocks dropped precipitously making delta trading our underlying equity hedges challenging. Last but not least, a large supply of convertible bonds was issued causing prices of all convertibles to cheapen across the board.

The good news, and most important news for investors, is that the convertible asset class is clearly in growth mode. This is not surprising as we stated in our year-end 2017 commentary that "Expectations are high for issuance in 2018 as equity valuations continue to rise, economic growth prospects increase, and rising interest rates lead more companies to look to save on coupon costs by issuing convertibles rather than straight bonds."

What is somewhat surprising is the speed at which the new issue market is picking up. In the first 2 quarters of 2018, convertible issuance totaled $29.2 billion from 78 new securities brought to market. At this pace, 2018 is looking to be the best year for issuance since 2007. Barclays research expects "this momentum to sustain for the rest of the year potentially resulting in $65-$70 billion in issuance." Total issuance for all of 2017 was $37.2 billion.

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Heavy new issuance is very healthy for the asset class over the long term as more supply increases opportunities to extract value from undervalued securities. Over the short term, the increased supply can exceed demand temporarily resulting in pressure on prices which we have experienced recently. As a result, valuations look attractive today – especially for volatility sensitive, in-the-money, tech convertibles set up on heavy hedges.

We will continue to execute our disciplined hedged convertible bond strategy in the same manner as always. We are continuously seeking the most favorable convertible bond opportunities while maintaining a well-diversified portfolio of hedged trades that limit risk. Finally, after 10+ years of pedestrian issuance, the wind has finally changed direction for convertibles as the asset class is showing signs of big turnaround. And given that 87% of the new issues in 2018 are from small/mid cap companies and 92% are non-rated, the expanding opportunity set fits precisely within our focused niche strategy.

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

See Reverse for Definitions & Risks

DEFINITIONS: The Russell 2000 is a market cap weighted indx that includes the smallest 2,000 companies covered in the Russell 3000 universe of United States-based listed equities. The Russell is by far the most common benchmark for mutual funds that identify themselves as "small-cap." It is not possible to invest directly in an index.

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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