ABSOLUTE CONVERTIBLE ARBITRAGE FUND

PORTFOLIO COMMENTARY - ARBIX

Q4 2017

PORTFOLIO COMMENTARY : January 2018

First and foremost, I would like to thank our investors. Many of you have been with us for more than a decade, some our entire 15 years, and we greatly appreciate your trust in us. 2017 was an exciting year of transition. On August 14th, we converted our hedge fund into a mutual fund. Our highly focused convertible arbitrage investment strategy remains the same, but the mutual fund structure will now provide investors a more user friendly vehicle. This was not an easy endeavor and it would not have happened without your cooperation and patience. Thank you all as we look forward to the next 15 years together.

Convertible arbitrage conditions were generally steady throughout 2017. High yield credit spreads tightened about 60 basis points supporting valuations, but lower equity volatility worked against convertibles. Equity volatility steadily declined throughout 2017 as 100 day historical volatility for the Russell 2000 dropped from 15.7 to 10.8 and the VIX fell from 14 to 11.

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Interest rates ticked higher in 2017. The short duration of our portfolio combined with increased yield from our short stock positions served to protect us from the move as we continued to perform during periods of treasury prices declines. Steady P&L (profit and loss) gains were driven by coupons collected, delta trading, our short stock rebate and generally higher prices due to increased demand from long only convertible investors.

A portion of our returns came from special situations in smaller cap, convert only debt companies that we have researched for years. These special situations involved companies repurchasing their convertible bonds, exchanging bonds for new paper, making strategic acquisitions or being taken over for cash at a premium. Small and mid-cap convertibles continue to be our focus because it is the arena of greatest supply, pricing remains inefficient, and it is where we can add value with our focused approach to research and trading.

The convertible new issue market was fairly strong in 2017 as 104 deals were priced representing $37.5 billion in proceeds. Importantly for us, 85% of the deals were issued by small and mid-cap companies offering a continuous supply of fresh merchandise. New issuance is an important source of return as the convert market turns over every 4 or 5 years with short bond durations. 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.

According to Barclays Research, the new tax changes will make the after tax coupon cost of convertibles significantly more attractive than straight debt for bond issuers. Barclays also estimates that the lower 20% corporate tax rate combined with the cap on deductibility, will boost small-cap earnings of existing convertible issuers 6-7% thus improving the debt service ability and credit quality of these companies. Therefore, the tax reforms are expected to help provide an additional boost to convertible new issuance and assist in decreasing credit risk for individual companies. It is worth noting that the average default rate for all convertible bond issuers over the past 6 years is only 1.5% (Barclays Research).

Looking at 2018, market conditions are lining up for convertible arbitrage. As stocks move higher, the convertibles market naturally becomes more "in-the-money", less credit oriented and more exposed to equity volatility. Current valuations reflect extremely low volatility assumptions versus historical averages. As equities make new highs, volatility could spike in 2018 as prices become more stretched and valuation opinions grow more dispersed. An uptick in stock price volatility could happen without a meaningful change in credit spreads. According to Barclays, convertible bond default rates in 2017 were a minimal 0.3%. A growing economy combined with favorable tax policies looks to be a healthy foundation for continued strength in credit.

(continued on reverse)

See Reverse for Definitions & Risks

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Higher interest rates could be a catalyst for higher equity volatility in 2018. Given the hybrid nature and short duration of convertibles, higher interest rates would have a small impact on valuations, especially for small and mid-cap companies where credit quality, volatility, supply and demand dynamics, and special situations drive prices. In fact, higher rates would be a welcome development as new issuers would be forced to pay higher coupons and the current yield in the portfolio would likely increase.

Regardless of what happens to volatility, credit spreads and interest rates, we are not in the business of forecasting macro events. Our decisions are based on bottom up individual company credit research combined with modeling convertible securities for relative cheapness. We actively manage a well-diversified portfolio of convertible bonds, hedge each bond by shorting the underlying stock, and continuously maintain a neutral equity stance by adjusting hedges as underlying stock prices move. We will continue to maintain a well-diversified portfolio of securities and actively manage that portfolio to maximize returns.

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

***Definitions:** The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States. VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. 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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Distributor: Foreside Fund Services, LLC
SKU: ARB-COMM-Q417