
Since we launched the strategy in 2002, our approach to convertible arbitrage has provided investors an alternative source of fixed income return with low volatility and low sensitivity to other strategies and asset classes.

The volatility of the Fund has been particularly low since conversion to a mutual fund structure in August of 2017. The standard deviation of the fund (1.25%) measures significantly below the standard deviation of fixed income indices including IBoxx High Yield Index (3.99%) and the Barclays Aggregate Bond Index (3.07%), and only a small fraction of the volatility of the S&P 500 (14.00%). In addition, ARBIX has shown minimal sensitivity to moves in interest rates, credit spreads and equities with a beta to the Barclays Agg = 0.00, a beta to IBoxx High Yield = 0.19 and a beta to the S&P 500 = 0.05 over that time.

These figures are the result of the balanced nature of our convertible arbitrage strategy. Convertible bonds are hybrid securities that, when hedged, offer long exposure to both credit and equity volatility which counterbalance each other. We buy statistically cheap convertible bonds of companies with low default risk and go short the underlying stock of the same company. The trade is set up as a relative value basis trade where the net capital at risk is tightly limited on a per trade basis and across the portfolio as a whole. We hedge away the directional equity risk and extract the fixed income stub of the convertible bond by going long convertible bonds and shorting the underlying stock of the same company.

ARBIX's strategy is different than other fixed income strategies because the vast majority of securities we buy are issued by companies unique to the convertible market. It is also different in that the trade offers long exposure to credit and equity volatility concurrently. If credit spreads widen, equity volatility typically increases, and vice versa. Again, this dynamic between credit and volatility acts as a risk reduction smoothing mechanism for returns. We recognize that such exposure may lead the Fund to out-perform other investment strategies in some years and under-perform in others. The balance is important however, in limited losses and compounding absolute returns over time.

2019 was a year where many traditional fixed-income strategies were hugely supported by moves in credit spreads and interest rates. While the move in credit and interest rates somewhat supported convertible arbitrage returns as well, the sharp move lower in volatility acted as a significant negative force on returns. But as stated in the previous paragraph, this trade-off is by design and it can be extremely beneficial for investors when credit spreads, interest rates and equity prices reverse course. Given where the markets are today, investors may want to look ahead and consider alternative fixed income strategies that can still make money if credit and interest rates reverse course.

The most important development in 2019 was the continued rapid pace of convertible new issues coming to market. Our strategy has benefitted often when the convertible market is growing because it gives arbitrageurs, like us, more securities to pick from. In 2019, issuance totaled $57.4 billion, the highest level of issuance since the financial crisis (Barclays). Even though investment grade companies comprise about 50% of the proceeds raised, the vast majority of issuing companies were small and mid-cap in size which fits precisely with our focused, small/mid cap, convertible arbitrage strategy.

We remain excited about the portfolio and opportunities being presented in the convertibles market. As the Fund closes in on 3 years as a mutual fund, we will continue to stay extremely focused, hedged and disciplined with capital preservation always our first priority.

See Reverse for Definitions and Risks
Quarter-End Performance for ARBIX: As of 12/31/19, the 1 year, 5 year and 10 year annualized performance for the Absolute Convertible Arbitrage Fund was 6.38%, 4.78% and 4.87% 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 1.99% and the net expense ratio is 1.74% 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: Standard deviation is a mathematical measurement of average variance. For a given data set, the standard deviation measures how spread out numbers are from an average value. In investing, standard deviation measures volatility. 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. A credit spread is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality. As an example, a 10-yr Treasury note with a yield of 5% and a 10-yr corporate bond with a yield of 7% are said to have a credit spread of 200 basis points.

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 website: www.absoluteadvisers.com. Please read the prospectus carefully before you invest.