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PORTFOLIO COMMENTARY : Second Quarter, 2012

The Absolute Strategies Fund continues to perform very well and has differentiated itself, as intended, from a highly correlated market environment across almost all asset classes. The Fund produced a positive return during volatile global equity sell-offs both in the 3rd quarter of last year and in the 2nd quarter of this year. Most other investments, including many "alternatives," appear to be highly correlated to systemic stretches of risk-on and risk-off. Given the Fund's overall positioning, it is unlikely the Fund's performance will have much sensitivity (beta) to either relative-return investments or most "alternative" investments in the current environment.

Our overall outlook and positioning has changed very little over the past year while most other market participants appear to be commandeered by central planners and central banks. These investors seem to blindly ignore independent critical thinking. Instead they operate through constant bouts of euphoria and depression attempting to bet on the next policy maker promise for a miracle solution that fixes everything pain-free. Frankly, we are running out of ways to explain our thoughts or to provide forward looking concerns that most others simply "wish away." Since nothing has really changed, we will revisit thoughts from previous commentaries and share some commentaries from two of our sub-advisers.

Most investors are surprised by the current slowdown in the global economy and corporate earnings. We have been worried about this for more than a year even though most everyone dismissed these ideas. In our view they are too focused on short-term, backward-looking data and do not understand the unintended consequences of policy stimulus in an over indebted global environment. The following are excerpts from our commentary going back to 2nd quarter 2011:

Q2 2011 Absolute Strategies Fund Commentary

Much like 2007, investors are excited about interrelated themes that cause some of our managers the most concern. This time around the larger concern is China and Europe, not the U.S. While Europe's issues are becoming more obvious, China is a bit less understood and is most interconnected to financial market correlations and asset inflations. As discussed in prior commentaries, many developed countries are over-indebted and are highly challenged economically and politically. However, China may be much more meaningful when considering investor expectations for global growth and earnings.

China and much of Asia may be near an inflection point where an inflationary spiral and associated credit bubble may start breaking down over the next 12-18 months. Beyond China being a communist country and having fraud issues, the country has executed massive lending that is roughly equivalent to the lending surge that fueled the US housing bubble, (despite the fact the China's economy is roughly only 70% of the size of the US economy). This excessive stimulus and lending has been necessary to achieve a stated 8% annual GDP growth goal that China believes is necessary to prevent civil unrest. Unfortunately, it has sparked massive inflation that some estimate may be in the double digits. China has begun attempting to tame inflation and reduce bank lending at the same time rumors of bad loans suggest China's banking system is in a highly precarious position. Taming inflation and slowing bank lending may prove difficult for an economy where fixed investment represents 60% of annual GDP. This level of investment-fueled growth has never been sustainable. Therefore, reducing lending and investment may be necessary to cool inflation; however, this will make 8% growth difficult to achieve.

Q3 2011 Absolute Strategies Fund Commentary

Large imbalances exist throughout the global economy and we are highly concerned about not only the unwinding of a global credit bubble, but an unwinding of global growth as well. Countries that were once able to bail out others' problems are now having difficulty FUNDING their own current obligations, never mind actually paying them off. As we have routinely stated, you cannot solve a debt problem with more debt. We are now witnessing what happens when some of the largest bond markets in the world realize the tipping point in this exercise.

European government spending and debt-fueled income provided the platform for a very large customer base for emerging markets' and Chinese goods. Austerity will shrink this pie going forward. Since levels of debt in Europe, emerging markets and China were determined based on highly optimistic estimates for growth that are now too high, a vicious reversal of the overall global growth cycle could develop. These economies are much less healthy and more imbalanced than they were in 2008. Since the global financial system is highly interconnected, defaults and contracting credit could result in a major slowdown in global economic growth and trade. Relatively speaking, the US economy is currently in a favorable position and a slowdown here may be nothing compared to what Europe or China may face.

Looking out over the next several weeks and months, we have no idea what to expect or where the markets will go. We feel fairly certain that there will be continued attempts to bailout XYZ country, to recapitalize the European banks, or to engage in money-printing. There will be

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many that will hold up the "all clear" sign and this may prompt the crowd to speculate short term, resulting in powerful market rallies. In the end, there is no money.

We strongly urge our investors to remain patient.

Q4 2011 Absolute Strategies Fund Commentary

Simply put we continue to believe the US (while certainly having problems) can survive within its own sandbox, but both Europe and China have imbalances that appear to be reaching a head and could produce extreme outcomes. Europe's situation continues to worsen with insolvent sovereigns, insolvent banks, and the chance of a recession nearing 100%. The structural imbalances of too much government spending, too much debt, and capital-deficient banks are not fixable with policymaker propaganda, money printing and sentiment cycles. Considering they are STILL trying to bail out Greece, makes one wonder how Portugal, Ireland, Spain and Italy will be handled. Solvency is the issue here and Europe's economic platform needs to be completely dismantled. Additionally, European banks were responsible for the bulk of emerging market lending over the past few years, but they are now largely insolvent with dwindling deposits.

We continue to stress that investors remain patient.

Q1 2012 Absolute Strategies Fund Commentary

Why do we believe we are not out of the woods? The seriousness of this process is creating the current, global structural problems because it impacts the most vital element: collateral. Collateral is what serves as the foundation for the current leveraged financial economy globally as it provides the means (the asset-side of a balance sheet) for lending and borrowing. When asset prices rise, additional debt can be created. When asset prices rise artificially, thanks to the effort of central banks over the past decade-plus through artificially low interest rates, it provides an unsustainable foundation for new debt. A simple example of this is the artificial increase in house prices (collateral) that allowed homeowners to take on additional debt and use their home values as an ATM. When prices of homes dropped back to supply/demand equilibrium, the higher levels of debt that were based on artificially high home prices caused a massive collateral problem. The asset/home dropped in value while the liability remained the same, thus wiping out all of the homeowner's equity. This process continues to this day. The Federal Reserve and other central banks try to inflate asset prices through money creation to entice the creation of new credit. This creates more debt on asset prices that are artificially elevated in hopes of kick-starting the economy. Unfortunately, newly created debt today has diminishing marginal productivity and is contributing very little to GDP growth. GDP is simply a measure of spending, not a measure of prosperity or wealth. One-time measures that create spending levels that again are artificial through deficit spending or credit are simply unsustainable (borrow and spend has limits).

The above thoughts were clearly contrarian at the time they were written. And yet they are now just beginning to be realized by other investors. These global worries are happening in real-time. Economic imbalances have only widened and worsened while global earnings are slowing dramatically. However, most investors continue to simply wait for the next central bank party invite and then hope they can grab a chair when the music stops. The only problem is that there is never a chair around when you need one. "Hope" is an unfortunate investment philosophy.

The following commentary excerpts are from two of our newer sub-advisers, St. James Investment Co. and Longhorn Capital; each has a meaningful allocation of Fund assets. These sub-advisers run completely different strategies (one is long-only equity and the other is currently short-biased equity), yet they both share the same concerns regarding the overall investing climate.

St. James Investment Co. – Opportunistic Equity

Many market strategists and traders began the year accepting the premise that the United States was experiencing a self-sustaining recovery. Nearly every economic release was interpreted with a positive tilt. The inclination was to herd into the more cyclically sensitive companies because of their sensitivity to economic fluctuations and tendency to exhibit more radical swings, correlated with the overall business cycle. The second quarter appears to have reintroduced a bit of reality as the May jobs report – the third disappointing release in a row – was dismal in virtually every respect. Even a Nobel-prize winning economist can now discern the downward direction of economic growth for the latter half of 2012.

…we see what we want to believe. When Wall Street sees signs of an economic recovery, they accept it on faith that it is the real Sir Roger rather than just the reappearance of central bank liquidity. Federal Reserve Chairman Ben Bernanke's track record certainly suggests that more stimulus is coming, but we would argue that any such move perpetuates a long series of monetary mistakes. If four years of zero interest rates, five trillion dollars of deficit spending, QEI, QEII, and Operation Twist have not worked, why would further quantitative easing work?

"Prepare for the worst and hope for the best" has always been sensible advice. An investor never knows what will happen with a young

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company like Facebook; therefore, one should seek investments that are already so cheap that unexpected setbacks do not destroy the investment. If an investor buys a share in a company because they think the price will go up, they are betting that they can see into the future. The "unknown unknowns" are likely to work against the investor. Better to buy a share of a company that you want to own over the long term -- not whether the price goes up in the short term. Risk, in terms of an investment, is when one is forced to sell an investment at a loss. Overpaying for an investment is the quickest way to add risk to an investment portfolio. While an undervalued investment may grow more undervalued over some period of time, the inherent value in the asset ensures that it will return to fair value at some point in time. By contrast, the best an overvalued asset can do is to fall to its fair market value. More likely, given the nature of markets, the asset will almost certainly fall even further than that. Paying too much for any asset is essentially buying investment risk.

Longhorn Capital – Long/Short Equity (currently short-biased)
We continue to assume a net short bias given the now obvious reality that policy action has only short-term market impacts while adding significant new fault lines to the longer-term risks. If anything, we have learned that liquidity effects are temporary and the economic realities of solvency and growth inevitably intrude and reassert themselves, despite incessant cheerleading from U.S., European, and Asian politicians and the investment community.

To reiterate our long standing outlook on equity investing in the current policy environment: "the current level of earnings across corporations globally has been meaningfully and artificially inflated by a confluence of unprecedented global government coordination of monetary and fiscal stimulus measures. The seemingly positive impact of these direct government subsidies on economic growth, corporate margins and cost of capital will prove to be transitory, unsustainable and likely costly for many investors."

Despite clear evidence of the declining sustainability of this condition, investors have continued to embrace record profitability as confirmation of future strength, rather than as evidence that the end-market demand of future years has been recklessly brought forward. To buy a business in this environment is to assume that policy did not steal from future years, and that trillion-dollar deficits and zero-percent interest rates can peacefully coexist indefinitely. With predictability of corporate earnings so uncertain, the profit opportunity on the short side of the market is as compelling as ever.

Of course, another large central bank balance sheet expansion could provide the temporary price support so yearned for by many market participants, but the risk of negative unintended consequences of free money continues to rise. For one, the need for yield from institutional investors in a zero-rate environment has driven flows to largely price risk out of both investment-grade and high-yield credit markets. Additionally, short-term liquidity excesses have served to dampen overall market volatility globally. On some level, very low volatility masks the increasing damage being done to numerous individual equities, while the broader market indices remain intact and relatively tranquil. The normal rise in volatility in periods of de-risking is largely absent in the current market environment, numbing an important warning mechanism across markets. This condition may ironically serve to elongate the process of reduction in valuations and earnings growth estimates that we deem likely. Fortunately, the condition provides fertile profit potential for our short strategy focused largely on individual global equities. We believe there are no shortages of potential company-specific and market-driven catalysts in the second half of the year, and we continue to be very enthusiastic about the Fund's return potential in 2012.

Again, what is happening in the global economy is not that complicated once you apply some common sense. GDP simply measures a level of "spending." GDP growth is not a measure of wealth or long-term economic prosperity. Attempts to create GDP (spending) growth through increasing levels of debt, policy stimulus, and deficit spending have been going on for decades. Now that those exercises have reached their limits, policy makers are trying to "fix" the problem of too much debt and too much spending with more debt and more spending. Over-indebtedness cannot be solved with more debt and certainly cannot be solved free of pain. These issues are not about liquidity, they are about solvency. They are not cyclical. They are structural and unsustainable. The credit markets provide the inevitable low tide that uncovers all of the garbage and recklessness of the prior cycle. Unfortunately, this cycle maybe measured not in quarters or years, but in decades. We don't have any predictions, but it is likely that whatever bad things can happen, will happen.

We strongly believe significant opportunities will arise for our managers to take on more risk. But those opportunities are likely to be derived from a vast re-pricing of risk, not from hope or from the promises of policy makers and central banks. As a reminder, the Fund is designed for patient, disciplined investors who are looking for something to help preserve capital and provide a diversifying element to a mix of directional asset classes. Given the high sensitivities and correlations across most global asset classes, diversification can be incredibly difficult; we cannot think of a better time to be using our Fund.

All commentary is available on our web site at
www.absoluteadvisers.com

See Last Page For Definitions & Risks

Definitions: *The S&P 500 Index is a broad-based, unmanaged measurement of changes in stock market conditions based on the average of 500 widely held common stocks. The HFRI Indices are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. It is not possible to invest directly in an index or average. 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.*

Additional Risks:
Since the Fund utilizes a multi-manager strategy with multiple subadvisers, it may be exposed to varying forms of risk. 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.

The Fund is non-diversified and may focus its investments in the securities of a comparatively small number of issuers. Concentration in securities of a limited number of issuers exposes a fund to greater market risk and potential monetary losses than if its assets were diversified among the securities of a greater number of issuers.
The Fund may invest in small- and medium-sized companies which involve greater risk than investing in larger, more established companies, such as increased volatility of earnings and prospects,higher failure rates, and limited markets, product lines or financial resources.

The Fund may invest in foreign or emerging markets securities which involve special risks, including the volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets.
The Fund may invest in debt securities which are subject to interest rate risk. An increase in interest rates typically causes a fall in the value of the debt securities the Fund may invest in.

The Fund may also invest in high yield, lower rated (junk) bonds which involve a greater degree of risk and price fluctuation than investment grade bonds in return for higher yield potential. The Fund's distressed debt strategy may involve a substantial degree of risk, including investments in sub-prime mortgage securities.

The Fund may purchase securities of companies in initial public offerings. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the company and limited operating history.
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.

The Fund may also invest in derivatives which can be volatile and involve various types and degrees of risks, depending upon the characteristics of a particular derivative. The Fund may invest in options and futures which are subject to special risks and may not fully protect the Fund against declines in the value of its stocks. In addition, an option writing strategy limits the upside profit potential normally associated with stocks. Futures trading is very speculative, largely due to the traditional volatility of futures prices.

Investors should carefully consider the Fund's investment 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.

ABSOLUTEstrategies FUND

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