

ABSOLUTE CAPITAL OPPORTUNITIES FUND

PORTFOLIO COMMENTARY - CAPOX

Q2 2018

KOVITZ INVESTMENT GROUP
is based in Chicago, IL and
is the Portfolio Manager of the
Absolute Capital Opportunities Fund

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The Absolute Capital Opportunities Fund declined approximately 2% in the second quarter of 2018. This result was largely driven by the underperformance of our value-based long holdings and costs incurred by the Fund to maintain its hedging program.

This quarter saw the continuation of a trend where the overall market’s return is being driven by so-called “growth” stocks trading at high valuations. Through June 30th, “growth” (as represented by the Russell 1000 Growth Index) has now outperformed “value” (as represented by the Russell 1000 Value Index) nearly 9% in 2018 and by 32% over the last three and a half years. Unlike previous periods, US-based “growth” has really been the only major market segment working across the globe this year. In addition to the divergence with the rest of the domestic market, both international developed markets (as represented by the MSCI EAFE Index) and emerging markets (as represented by the MSCI Emerging Markets Index) have experienced poor returns of -3% and -7%, respectively, this year compared to the S&P 500’s return of 2.65% and the Russell 1000 Growth index return of 7.25%.

The misnomer about “growth” versus “value” though is that plenty of so-called “value” stocks, including most of the companies held in the Fund, have been growing their earnings at roughly the same rate as the overall market throughout this period. The only difference is that market participants have rewarded already richly valued companies (primarily in the Technology sector) with even higher valuations. These levels require a high degree of certainty that the future path of earnings will closely resemble the recent past just to be called fair and they provide very little room for error in that assessment. Meanwhile, many of the companies owned by the Fund have been cast aside under the guise of a different kind of certainty: that earnings for these companies will not grow or grow only modestly for the foreseeable future despite these same companies disproving that theory many times over the past several years.

This divergence continues to appear untenable to us over any meaningfully long period of time. Over a long period of time, the cash flow produced by a company will force that company’s stock price to revert back to a level better approximating fair value. Alternatively, the company will be acquired by a strategic competitor looking to capitalize on the mispricing. This is why we focus on math. Over time, math is what causes the time horizon arbitrage to close.

The Fund continues to be positioned much as it had been throughout the first half of the year. We maintain significant levels of downside hedges. We feel this level of hedging is prudent given the heightened starting valuations for many equities, low but potentially rising interest rates, and the potential (not probability) for geopolitical missteps.

At the same time, the valuation disparity between stocks in favor vs. those deemed out of favor has widened even more over the past quarter. We are happy to report that we are actively adding to our long portfolio. At present, we own a portfolio of competitively advantaged businesses generally trading at 12-16x our estimation of normalized earnings. This represents a significant discount to the overall market, but interestingly the portfolio on a whole looks to have similar or better forward growth prospects. As such, we have maintained upside via the relative performance of our long holdings vs. our hedges, as well as out of the money call options designed to benefit from upside volatility and/or a generally rising stock market.

[See Reverse for Risks & Definitions](#)

Quarter-End Performance for CAPOX: As of 6/30/18, the 1 year and inception-to-date (12/30/15) annualized performance was 11.26% and 8.45% 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 Capital Opportunities Fund's Total Annual Operating Expense ratio (gross) for Institutional Shares is 3.51%. By prospectus, the net expense ratio is 2.45%, as Absolute Investment Advisers LLC has contractually agreed to waive its fee and/or reimburse Fund expenses to limit Total Annual Fund Operating Expenses. 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.

Additionally, the Fund's Adviser has contractually agreed to waive its fee and/or reimburse Fund expenses to limit Total Annual Fund Operating Expenses (excluding all taxes, interest, portfolio transaction expenses, dividend and interest expenses on short sales, acquired fund fees and expenses, proxy expenses and extraordinary expenses) to 1.75% 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: The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with higher price to book ratios and higher forecasted growth values. The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with lower price to book ratios and lower forecasted growth values. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Switzerland, and the United Kingdom. The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets countries. It is not possible to invest directly in an index.

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 may be exposed to varying forms of risk. 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 in which the Fund may invest. 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 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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