

ABSOLUTE CAPITAL OPPORTUNITIES FUND

PORTFOLIO COMMENTARY - CAPOX

Q4 2018

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

The Absolute Capital Opportunities Fund gained 1.1% in the fourth quarter of 2018, bringing the annual return for 2018 to 5.99%. This was an outstanding year. We are very pleased with this result in both absolute and relative terms.

The fourth quarter was a brutal period for unhedged equities with the S&P 500 declining 13.52%. Interestingly, growth *underperformed* value for the first time in years. As we have noted previously, the valuation discrepancy between value stocks and growth stocks have reached a level not seen since the dot-com bubble. We do not believe it is a coincidence this valuation discrepancy mattered in the first notable volatility since 2011.

2018 also appeared difficult for many hedged strategies. The Morningstar Long/Short Equity Category declined over 6% for the year. This was *even greater* than the decline of the S&P 500 for 2018 (-4.3%). For many investors it must be hard to feel good about this group of funds as whole.

CAPOX was a clear outlier. Why?

We believe the discrepancy between CAPOX and its peer group comes down to a fundamental difference in our process. We believe the most effective way to protect downside is by actively hedging, by combining that process with our bottom up research, and by structuring the Fund to potentially have an attractive payoff profile in market movement both up and down. The Fund can earn a return either via stock selection, relative stock selection, changes in volatility, or direct hedges based on broad based market movement. In other words, having multiple opportunities for gains.

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In terms of attribution for the year, the Fund’s long positions suffered along with other value managers as value stocks declined meaningfully. On the other hand, the Fund greatly benefitted from its hedging program. In particular, the Fund benefited from its upside hedges as the market surged in January with the passage of corporate tax reform, and then again from its downside hedges in both February and the fourth quarter. We are especially happy with the Fund’s ability to protect capital in the two large drawdowns of the year. As a result, 2018 was a year where CAPOX had market neutral exposures, generated negative alpha via stock selection, and yet *gained* 5.99% for the year.

Looking forward, the Fund continues to be positioned much as it had been in the past. We continue to carry substantial hedges, but believe our stock holdings have become the most attractively priced we have seen since 2010. As a result, we have structured the Fund so that it may benefit from either stock selection, or absolute movement in either direction.

We very much appreciate the faith you, our investors, have placed with us. Please know we are invested very significantly alongside you. We are very pleased with our recent results, and look to produce more of the same over the course of the market cycle.

[See Reverse for Risks & Definitions](#)

Quarter-End Performance for CAPOX: As of 12/31/18, the 1 year, 3 year and annualized since inception (12/30/15) performance for the Absolute Capital Opportunities Fund was 5.99%, 6.42% and 6.41% 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.

The Fund's total annual operating expense ratio (gross) is 3.37% and the net expense ratio is 2.62% through August 1, 2019. However, the Fund's Adviser has contractually agreed to waive its fee and/or reimburse Fund expenses to limit Total Annual Fund Operating Expenses to 1.75% (the "Expense Cap"). This Expense Cap, which excludes all taxes, interest, portfolio transaction expenses, dividend and interest expenses on short sales, acquired fund fees and expenses, proxy expenses and extraordinary expenses, may only be raised or eliminated with the consent of the Board of Trustees

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. It is not possible to invest directly in an index. Alpha takes the volatility (price risk) of a fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha. An investment strategy or portfolio is considered market-neutral if it seeks to avoid some form of market risk entirely, typically by hedging.

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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Distributor: Foreside Fund Services, LLC

SKU: CAP-COMM-Q418