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**PORTFOLIO COMMENTARY : First Quarter, 2010**

The 1st quarter of 2010, while volatile for many market participants, was an uneventful quarter for the Absolute Strategies Fund. This is what we preferred and expected. The Fund was up 2.01% vs. 5.39% for the S&P 500 and 1.63% for the HFRX Global Hedge Fund Index. Investors in the S&P 500 continue to be rewarded for taking risk as the index has now rallied close to 80% since the March 2009 low. The durability of the rally (like many of those taking place over the past decade) is still undecided. However, even with the strong move in equities, the 3-yr total return for the Fund is 8.14% vs. -11.98% for the S&P 500 and -9.24% for the HFRX Global Index through March 31. This illustrates the severe duration risk of investing heavily in overvalued equity markets.

*[Quarter-End Performance: As of 3/31/10, the 1-year and since inception (7/27/05) annualized performance for I- Share was 22.95% and 3.61%, 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. The recent opportunities in the capital markets have helped to produce short-term returns that are not typical and may not continue in the future. For performance current to the most recent month-end, visit the Fund's web site at [www.absoluteadvisers.com](http://www.absoluteadvisers.com). As stated in the current prospectus, the Fund's total annual operating expense ratio (gross) for Institutional Shares is 2.32%. Excluding the effect of expenses attributable to dividends on short sales, the Fund's total annual operating expense ratio (net) was 1.81% for Institutional Shares for the fiscal year ended March 31, 2009.]*

From a portfolio standpoint, we do not have significant commentary to add to what was stated in the prior quarter's commentary. In fact, most of this commentary can be replaced with "ditto" (we will have more to include in our annual report letter to shareholders, which will be released next month). The Fund continues to rein in 'capital at risk' as markets and investors have become ebullient and opportunities to take risk have become limited. The Fund's exposures continue to be focused on global macro, market neutral, and convertible arbitrage managers who can benefit from a more volatile environment. We have also recently increased our overlay hedge to mitigate the potential impact of large systemic risks. Currently, our net exposures are as low as they have been since inception; however this could change if we see a re-pricing of risk in various markets.

Why are we hedged? Simple. The potential for systemic risks continue to be very high and we do not believe markets are currently pricing in the bad outcomes, only the optimistic ones;

this is the opposite of a year ago. The past few market cycles have been highly compressed as investors appear to recognize risks only after they occur (ex: leverage and sub-prime problems were clear red flags in 2006, not September 2008). As such, the discounting mechanism of the markets has also become compressed as all assets go through stages of an escalator up and then an elevator back down (there are very few floors where you can get off).

The easiest way to understand how investors have mis-priced risk is to think back over the past few years. In 2006-2007, investors were moderately rewarded (in the short-term) for taking large risks when *everyone else* was also eagerly accepting risk. This turned out to be a huge error in judgment and resulted in enormous losses. Compare this to a year ago when investors were highly rewarded for taking risk when *nobody* was accepting risk. The environment today resembles the 2007 period as it relates to momentum-fueled investing and elevated expectations. Investors now feel comfortable taking risk again because it feels safe and they likely underperformed last year. For the Fund, early 2009 felt like a great time to increase capital at risk when assets were cheap and expectations were low, not after markets rally 80% and things sound safe.

As discussed in our prior commentary, there are many risks that we believe are not adequately priced into the current equity and credit markets. Yes, earnings have improved and the economy has stabilized, but isn't that what an 80% re-pricing of equities takes into account? (We also wonder, if pundits believe the economy is so strong, why are rates still at 0%, and what does the economy and fiscal debt look like at rates of 5%+?) Beyond the many secular headwinds, deleveraging is the key theme and it began to make headlines in the 1st quarter starting with Greece, and could stretch throughout much of Europe and beyond.

It is amazing how few people believe this is a systemic risk and completely dismiss the possibility of contagion, similar to the reaction to Bear Stearns. Historically, sovereign and domestic debt crises are quite common following a financial crisis, (*Reinhart & Rogoff, "This Time is Different," 2009*). While everything may turn out okay, what if it doesn't? Can you envision Greece getting bailed out (aka Bear Stearns), which excites the markets only to delay the credit crunch until the next country comes along (aka Lehman) that can't be bailed out? Is this not the same recipe and process that the Fed has been experimenting with over the past 12 years since Long Term Capital? When/how does it end and what do we do when we cannot do any more bailouts? Aren't we already there given 0% interest rates and the government's lack of political and fiscal capital? We believe that continuing to delay pain and forcing excessive risk taking may potentially create a pinnacle of moral hazard that could result in far more, or extended pain in the future than was experienced in 2008. At the very least, shouldn't equity and credit risk premiums rise?

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On the other hand, if the economy begins to truly strengthen and labor markets improve, what will happen to asset prices in both equities and credit if the Fed even hints at raising rates? We would argue that many investors who find equities attractive are rationalizing their decisions through the use of exceptionally low interest rates for discounting and they would need to adjust their "models" should rates move up. Bond prices speak for themselves. Additionally, could the US economy even handle a 2-3% Fed Funds rate, or for that matter even a lack of stimulus? What would happen to the housing market? (We are assuming the Fed doesn't leave rates at 0% on the back of a strong economy...but who knows...they've enabled bubbles before!)

We are very comfortable with our current exposures and we will not be disappointed or surprised to miss out on momen-

tum and Fed-fueled risk-taking. In fact, that has been the trend for our Fund in the past when markets have ignored risk with short-term rallies that lack sustainability. We will continue to be disciplined and exercise patience for accepting risk until times when others aren't so eagerly willing to accept it and will vary our capital at risk accordingly. Given the potential for highly volatile market conditions, our exposures may change as opportunities to accept risk appear. These opportunities will be defined by the mis-pricing of risk, not by a flurry of great news headlines. As a reminder, investors who measure performance quarter to quarter may have misaligned expectations as the Fund seeks performance over a full market cycle and is intended for long-term risk-conscious investors.

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●\***Definitions:** *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. 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. Standard Deviation indicates the volatility of a fund's total returns. In general, the higher the standard deviation, the greater the volatility of return.*

## 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 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 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](http://www.absoluteadvisers.com). Please Read the prospectus carefully before you invest.***

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