



The Arbitrage Funds

ADVISED BY WATER ISLAND CAPITAL

Catalyst-Driven Credit

A Potential Solution for Rising Interest Rates

Over the past thirty years, falling interest rates and supportive economic conditions have produced an unprecedented bull market in bonds. Recent trends, however, suggest the foundation that has supported the space is giving way. The Federal Reserve's (Fed) long-term effort to substantially reduce its \$4.5 trillion of bond holdings is accelerating. In addition, the Fed has raised interest rates to their highest level in the last ten years, and it has telegraphed additional rate hikes to come. The economic recovery is maturing, while the new political administration in Washington pursues an economic agenda that could lead to a resurgence in inflation. Historically, these factors have been challenging for traditional fixed income, and have prompted investors to look for alternative sources of stability and income.

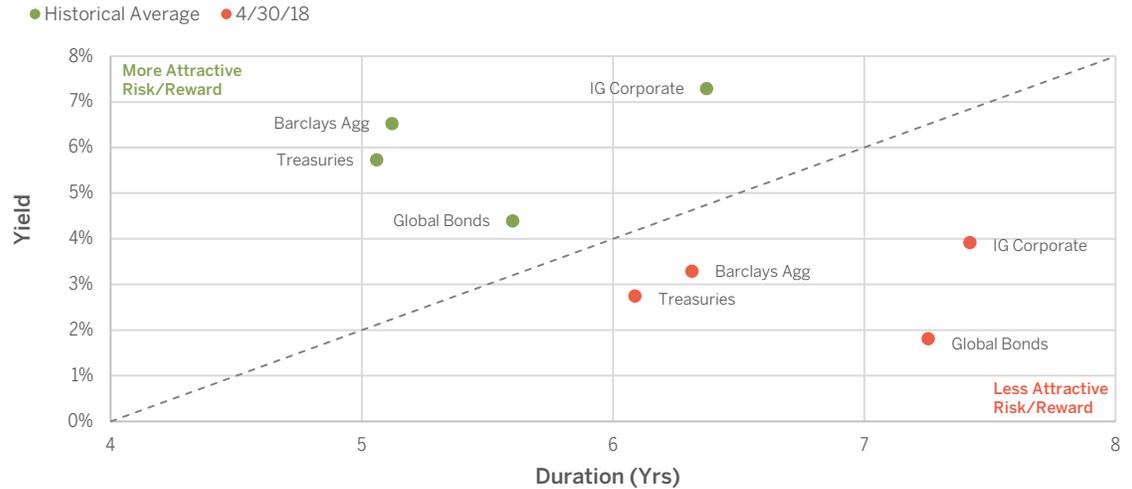
An attractive solution that may serve as a portfolio ballast and source of income is catalyst-driven credit. This strategy's focus on capturing inefficiencies created by corporate catalysts can shorten duration, dampen volatility, and generate positive returns in rising interest rate environments.

Challenges Facing Traditional Fixed Income

Greater Risk For Less Return

Investors searching for yield are forced to assume substantially greater risk today relative to historical norms.

Ratio of Yield to Duration

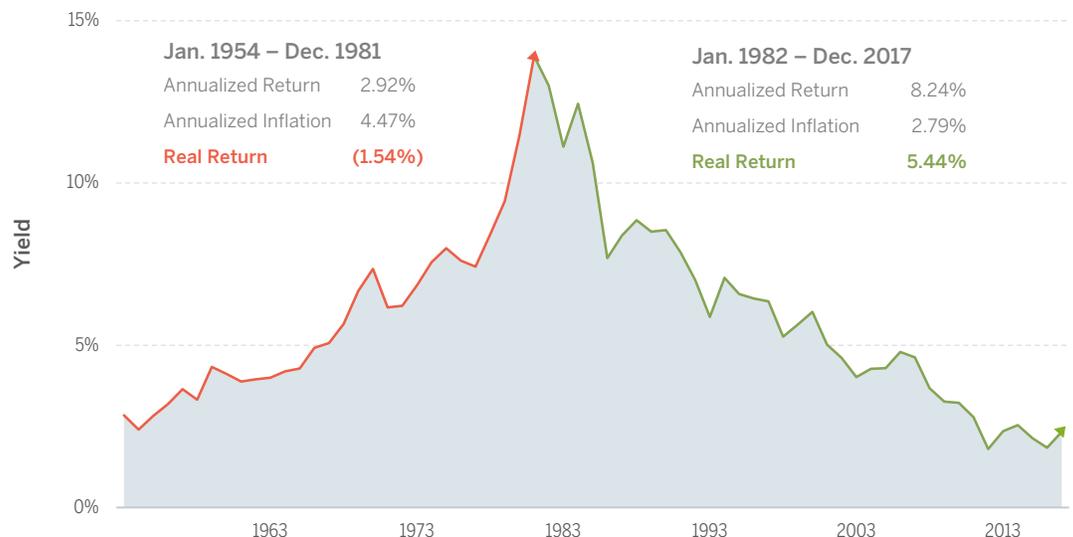


Source: Bloomberg Barclays. Date Range: 12/31/1979 – 4/30/2018. Past performance is no guarantee of future results. Yield is representative of yield to worst. Historical average was calculated using rolling monthly values. See glossary for index definitions.

A “Real” Problem?

While we do not know the exact trajectory of interest rates, we expect bond yields to rise from their historic lows. Traditional fixed income has struggled to outpace inflation when yields rise, resulting in negative real returns for investors.

10-Year US Treasury Yield & Real Return



Source: US Federal Reserve and US Bureau of Labor Statistics. Date Range: 1/1/54 – 12/31/17. Past performance does not guarantee future results

Complementing Core Bonds in Difficult Markets

Core Bond Alternatives

For investors concerned about rising interest rates and the potential impact on their portfolios, products like floating rate bonds, short term bonds, and TIPS have become a popular choice.

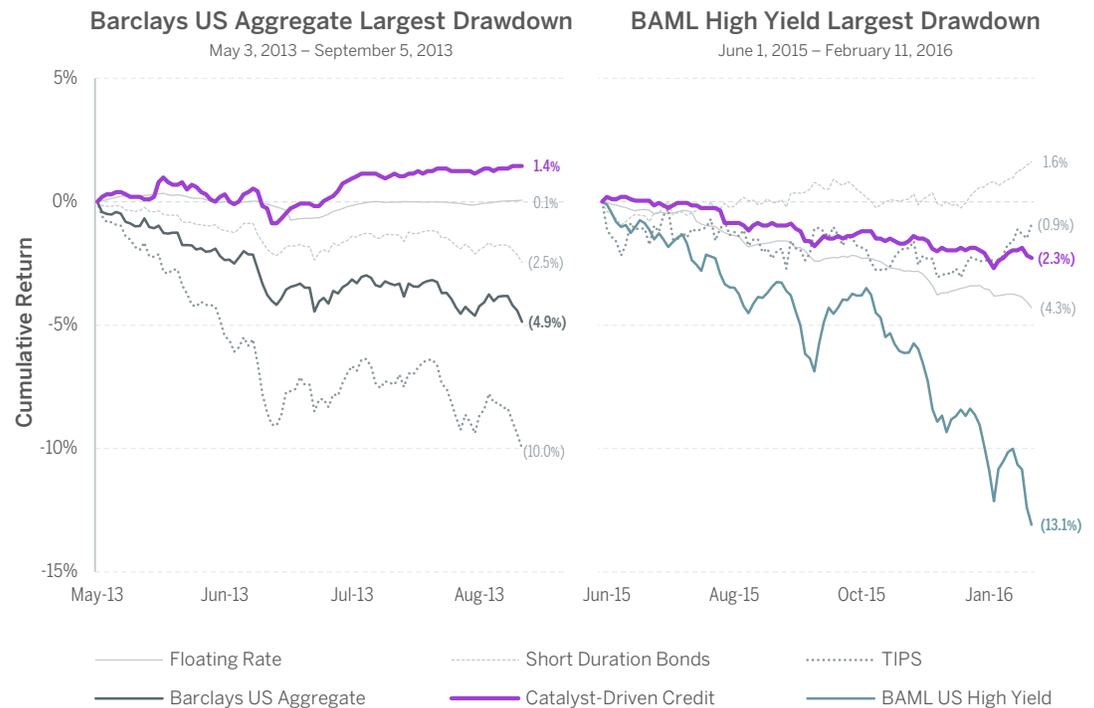
		Excess Return	Correlation to Core Bonds	Interest Rate Risk ¹	Credit Spread Risk ¹
Traditional Methods	Floating Rate	1.05	0.08	✗	✓
	Short Duration Bonds	(0.31)	0.93	✓	✗
	TIPS	(1.42)	0.84	✓	✗
A New Approach	Catalyst-Driven Credit	0.97	0.09	✗	✗

¹Correlation less than -0.5 to changes in interest rates and/or credit spreads.

Source: Morningstar Direct. Date Range: 10/1/2012 – 4/30/2018. Past performance is no guarantee of future results. Catalyst-Driven Credit represented by ACFIX. Floating Rate represented by an arithmetic average of the ICE BofAML U.S. Floating Rate Asset Backed Securities Index and the S&P/LSTA U.S. Leveraged Loan 100 Index. See glossary for index definitions. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Excess return is annualized and relative to the Bloomberg Barclays U.S. Aggregate Index.

Performance During Drawdowns

The charts below compare performance during the largest drawdowns in the Barclays US Aggregate Bond Index and the Bank of America Merrill Lynch US High Yield Master II Index since inception of the Water Island Credit Opportunities Fund.



Source: Morningstar Direct. Date Range: 10/1/2012 – 4/30/2018. Past performance is no guarantee of future results. Catalyst-Driven Credit represented by ACFIX. Floating Rate represented by an arithmetic average of the ICE BofAML U.S. Floating Rate Asset Backed Securities Index and the S&P/LSTA U.S. Leveraged Loan 100 Index. See glossary for index definitions. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

A New Approach: Water Island Credit Opportunities Fund

Overview

The Water Island Credit Opportunities Fund pursues an alternative, credit-based strategy that seeks to generate returns from specific catalysts or corporate events that are less correlated to overall market direction or interest rates. The fund's objective is to provide current income and capital growth by holding outright long and short positions and by utilizing techniques such as capital structure arbitrage, merger arbitrage, and convertible arbitrage to exploit security mispricings or inefficiencies.

Corporate Catalysts

Mergers & Acquisitions
Refinancing
Spin-Offs
Asset Sales
Restructuring
Covenant Violations
Change in Credit Rating

This approach can complement traditional fixed income by providing:

DIVERSIFICATION²

A long/short approach to catalyst-driven credit investing can insulate against interest rate risk, shorten duration, and dampen volatility

CAPITAL PRESERVATION

The strategy has provided upside participation when the Barclays U.S. Aggregate Bond Index is up and it has provided a downside buffer and positive returns when the index is down

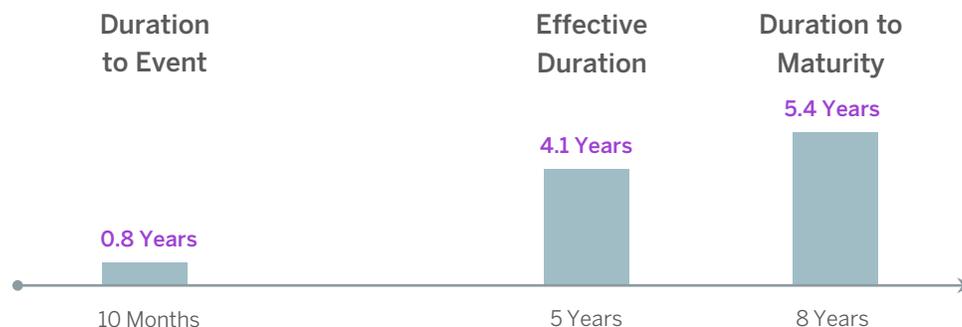
RISING INTEREST RATE HEDGE

A catalyst-driven credit strategy has minimal interest rate exposure and shorter duration relative to traditional fixed income allocations, which typically suffer when interest rates rise

Example

Hypothetical Bond	
Purchase Price	\$101.50
Coupon	6.0%
Matures in	8 yrs
Callable in	5 yrs
Anticipated Event In	10 mos
Tender Offer Price	\$101.00
Profit from Tender	(\$0.50)
Interest for 10 Mo.	\$5.00
Net Profit	\$4.50
Annualized Return	5.3%

- We identify a bond with an expected near-term catalyst, such as a potential tender offer in conjunction with a merger
- We purchase the bond and receive interest payments while the catalyst materializes
- The company tenders the bonds when the merger closes ten months later
- Since the anticipated tender offer occurred prior to the bond's maturity, we were able to capture returns in a shorter time period while avoiding credit and interest rate risk commonly associated with longer duration securities

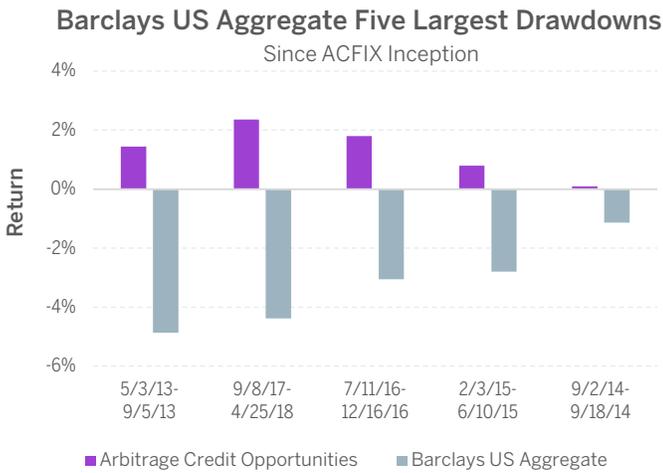


² Diversification does not eliminate the risk of experiencing investment losses. The hypothetical example does not represent the returns of any particular investment.

Potential Benefits for Your Portfolio

Strong Focus on Capital Preservation

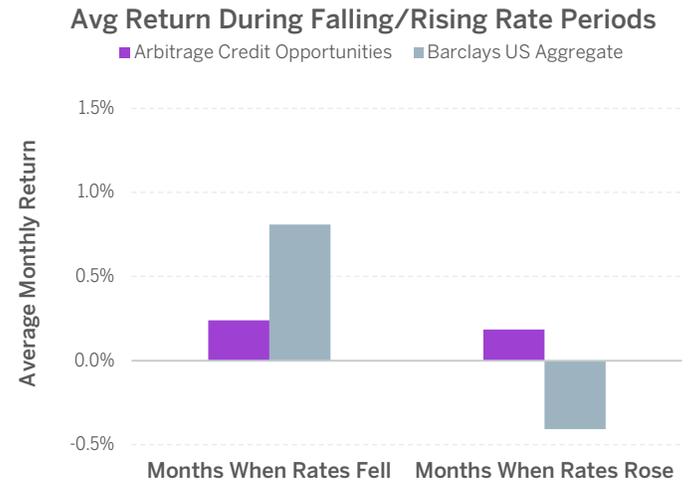
A core tenet of our philosophy is that strong, long-term performance is best achieved through the compounding of reasonable returns and the avoidance of major losses. The fund has historically preserved capital in periods when traditional fixed income has struggled.



Source: Morningstar Direct. Date range: 10/1/2012 - 4/30/2018. Past performance does not guarantee future results.

Performance in Rising Rate Periods

Our focus on capturing returns driven by corporate catalysts, rather than the direction of interest rates or the broader fixed income markets, has resulted in positive performance regardless of interest rate movements.

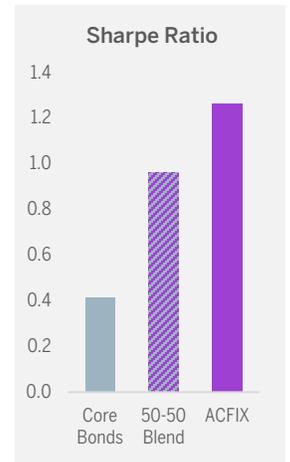
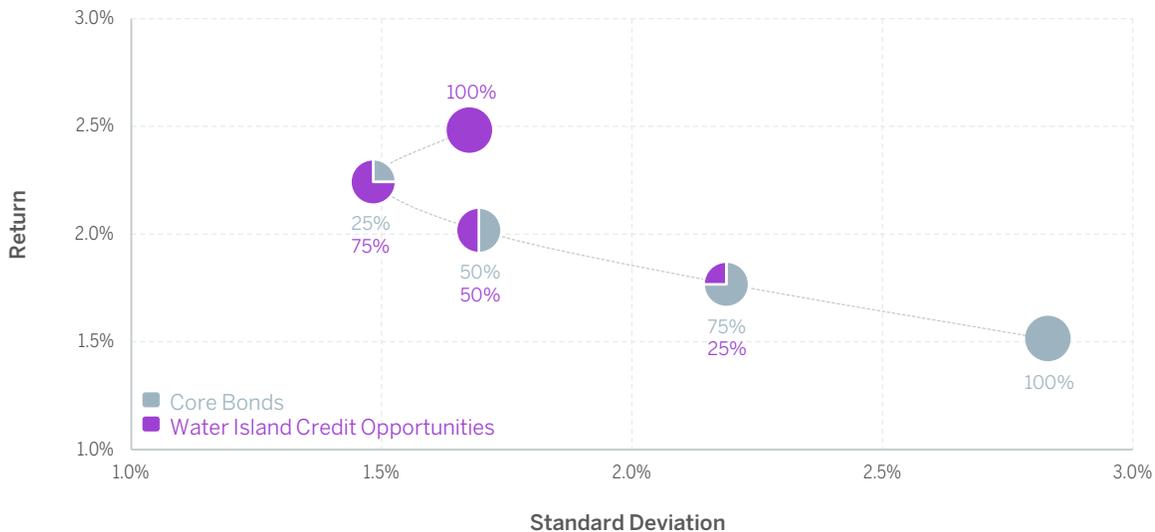


Source: Morningstar Direct. Date range: 10/1/2012 - 4/30/2018. Falling/Rising Rate Periods representative of month-over-month change in the 10-Year U.S. Treasury Yield. Past performance does not guarantee future results.

Diversification

Historically, adding catalyst-driven long/short credit has diversified a traditional bond portfolio by reducing risk and enhancing returns.

Historical Risk/Return Profile



Source: Morningstar Direct. Date range: 10/1/2012 - 4/30/2018. Past performance does not guarantee future results. Allocations are for illustration only and are not indicative of any recommendation or investment. Water Island Credit Opportunities represented by ACFIX; Core Bonds represented by the Bloomberg Barclays U.S. Aggregate Index; and 50-50 Blend represented by 50% ACFIX and 50% Core Bonds, rebalanced quarterly. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

GLOSSARY

Bloomberg Barclays Global Aggregate Index (Global Bonds): Covers the global investment-grade fixed rate bond market.

Bloomberg Barclays U.S. Aggregate Index (Barclays US Aggregate): Covers the U.S. investment-grade fixed rate bond market.

Bloomberg Barclays U.S. Aggregate 3-5 Years Index (Short Duration Bonds): Covers the U.S. investment-grade, 3-5 year maturity fixed rate bond market.

Bloomberg Barclays U.S. Credit Index (IG Corporate): The former U.S. Corporate Investment Grade Index until July 2000 when it was renamed. Covers U.S. corporates, specified foreign debentures, and secured notes denominated in USD.

Bloomberg Barclays U.S. Treasury Index (Treasuries): Covers public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg Barclays U.S. Treasury TIPS Index (TIPS): Covers inflation-protected securities issued by the U.S. Treasury.

Correlation: A measure of how two securities move in relation to each other, ranging from -1 to +1. A correlation of 0 means the relationship between the two securities is completely random, while +1 indicates a perfect positive relationship and -1 a perfect negative relationship.

Credit Spread Risk: The risk that changes in credit spreads (the difference in yield between U.S. Treasury bonds and debt securities with the same maturity but of lesser quality) will affect the value of certain debt instruments, whose prices typically move in an inverse fashion.

ICE BofAML U.S. Floating Rate Asset Backed Securities Index: A measure of U.S. dollar denominated asset backed securities having a floating rate coupon and an investment-grade credit rating

ICE BofAML U.S. High Yield Index (BAML US High Yield): A measure of the broad high yield market, commonly used as a benchmark for high yield corporate bonds.

Interest Rate Risk: The risk that changes in interest rate will affect the value of certain debt instruments, whose prices typically move in an inverse fashion.

Real return: The realized return on an investment after it has been adjusted for the change in inflation.

S&P/LSTA U.S. Leveraged Loan 100 Index: Covers the 100 largest loan facilities in the leveraged loan market.

Sharpe ratio: A measure of risk-adjusted performance, calculated by subtracting the risk-free rate from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.

Standard deviation: A measure of the degree of variation of returns around the average return.

TIPS: Treasury securities that pay fixed interest rates and have adjustable par values indexed to inflation

Yield to worst: The lowest potential yield that can be received on a bond without the issuer defaulting.

IMPORTANT INFORMATION

Performance through 4/30/18: ARCFX (R class), 3.13% (one year), 1.84% (three year), 2.17% (five year), 2.26% (since inception 10/1/12); ACFIX (I class), 3.32% (one year), 2.10% (three year), 2.42% (five year), 2.49% (since inception 10/1/12); ARCCX (C class), 2.42% (one year), 1.14% (three year), 1.45% (five year), 1.55% (since inception 10/1/12); AGCAX (A class), 3.12% (one year), 1.85% (three year), 2.19% (five year), 2.08% (since inception 6/1/13). *Performance greater than one year is annualized. The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling (800) 295-4485. Returns shown above include the reinvestment of all dividends and capital gains. Contractual fee waivers are currently in effect. Without such fee waivers, performance numbers would have been reduced. Total Annual Fund Operating Expenses for ARCFX, ACFIX, ARCCX, and AGCAX (excluding sales charge) are 1.94%, 1.69%, 2.69%, and 1.94%, respectively. Total Annual Fund Operating Expenses After Fee Waiver for ARCFX, ACFIX, ARCCX, and AGCAX (excluding sales charge) are 1.41%, 1.16%, 2.16%, and 1.41%, respectively. The Fund has entered into an Expense Waiver and Reimbursement Agreement and has contractually agreed to limit the total annual operating expenses of the Fund, not including taxes, interest, dividends on short positions, brokerage commissions, acquired fund fees and expenses and other costs incurred in connection with the purchase or sale of portfolio securities, so that they do not exceed 1.23% for Class R shares, 0.98% for Class I shares, 1.98% for Class C shares, and 1.23% for the Class A shares. The agreement remains in effect until September 30, 2020. Class A shares have maximum front-end sales charges of **3.25%**.*

An investor should consider the investment objectives, risks, charges and expenses of the Funds carefully before investing. The current prospectus contains this and other information about the Funds. To obtain a prospectus, please call (800) 295-4485 or visit our website at <http://arbitragefunds.com>. Please read the prospectus carefully before investing. There is no guarantee the Funds will meet their stated objectives.

Information contained in this paper is the opinion of the author and is not intended to be investment advice.

RISKS: The Fund uses investment techniques that incur risks that are different from the risks ordinarily associated with credit investments. Such risks include merger arbitrage risks (in that the proposed reorganizations in which the Fund invests may be renegotiated or terminated, in which case the Fund may realize losses), high portfolio turnover risks (which may increase the Fund's brokerage costs, which would reduce performance), options risks, borrowing risks, short sale risks (the Fund will suffer a loss if it sells a security short and the value of the security rises rather than falls), foreign investment risks (the securities of foreign issuers may be less liquid and more volatile than securities of comparable U.S. issuers), convertible security risks, credit default swap risks, interest rate swap risks, credit risks, and interest rate risks, which may increase volatility and may increase costs and lower performance. Past performance is not a guarantee of future results.

Distributed by ALPS Distributors Inc., which is not affiliated with the Advisor or any other affiliate. [ARBO01341 2019-05-31]