The Arbitrage Funds

ADVISED BY WATER ISLAND CAPITAL

Catalyst-Driven Credit

An Alternative to Short-Term Bonds

After experiencing historically low interest rates and market yields since the financial crisis, concerns are mounting over the impact that rising rates will have on fixed income portfolios. While the appetite for income has not diminished, the risk to principal due to long durations has increased demand for short-term bond funds, long/short credit funds, and floating rate products.

Although short-term bond funds are generally considered to be conservative investment choices, credit risk can vary greatly between products – and it is important to remember that "short duration" does not necessarily imply "low risk."

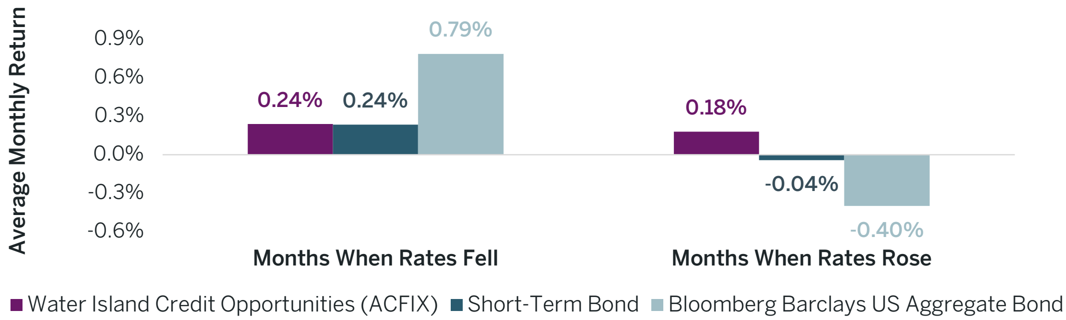
Water Island Credit Opportunities is a potential solution for investors seeking income while mitigating both credit and interest rate risk. Rather than targeting a specific yield, benchmark, or credit quality, the fund focuses on short-term catalysts and events such as mergers, acquisitions, asset sales, spin-offs, and other corporate actions. Consequently, the fund is less impacted by the risks commonly associated with longer duration securities and more correlated to the timelines and outcomes of these specific events.

Risk Mitigation

Mitigating Interest Rate Risk

Positive Returns Across Interest Rate Environments: The portfolio is constructed to capture idiosyncratic or company-specific returns that are more correlated to the outcome of specific catalysts, rather than the direction of interest rates or of broader fixed income markets. Our average holding period (or, more accurately, our "Duration to Event") is typically between 6-12 months, which helps to mitigate the negative effects a rising rate environment has on fixed income investments. We can see the benefits of this approach below:

Average Returns During Falling and Rising Rate Periods of 10-Year Treasury Yield



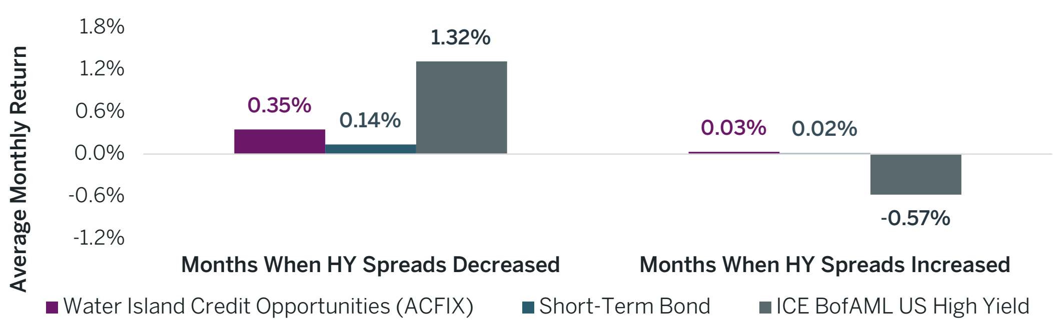
The performance quoted represents past performance and does not guarantee future results. *Date range: 10/1/12-6/30/18. Source: Morningstar, US Department of the Treasury, Water Island Capital, LLC.*

Annualized performance through 6/30/18: ACFIX (I class), 2.77% (one year), 2.26% (three year), 2.54% (five year), 2.49% (since inception 10/1/12). *Past performance is not a guarantee of 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. The Total Annual Fund Operating Expense for ACFIX is 1.69% gross and 1.16% net. 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 0.98% for Class I shares. The agreement remains in effect until September 30, 2020. Without such fee waivers, performance numbers would have been reduced. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an index. Please see Glossary for index definitions.*

Mitigating Credit Risk

High Yield Exposure with Increasing-Spread Mitigation: Due to a wide variety of credit metrics and creditor-friendly attributes, high yield bonds typically allow for a more diverse set of catalyst-driven investment opportunities than investment grade bonds. By maintaining a low Duration to Event, the portfolio can invest in lower-rated, high yield bonds (allowing the fund to potentially benefit more in decreasing spread environments than short-term bond funds) without being subjected to the same headwinds traditional high-yield bond funds face when credit spreads – a proxy for credit risk – increase.

Average Returns in Increasing and Decreasing High Yield Spread Environments



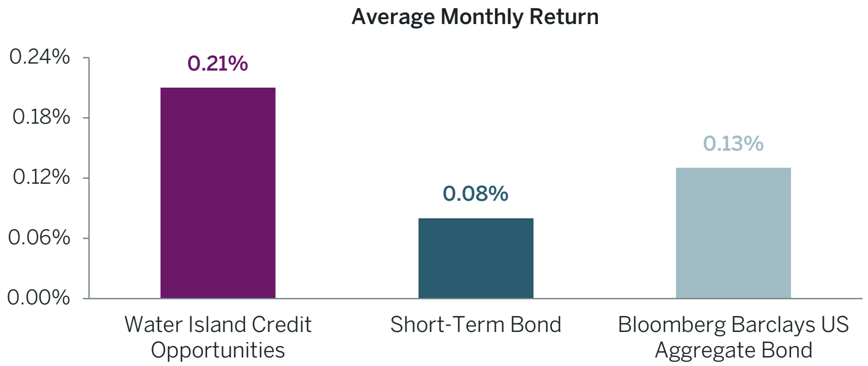
The performance quoted represents past performance and does not guarantee future results. *Date range: 10/1/12-6/30/18. Source: Morningstar, Bloomberg, Water Island Capital, LLC. Spread to Worst values of the ICE BofAML US High Yield Index are used to determine increasing or decreasing spreads on a monthly basis.*

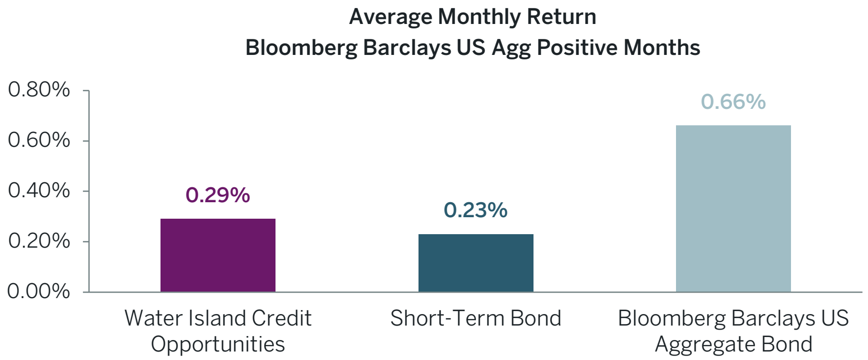
Benefits of a Catalyst-Driven Approach

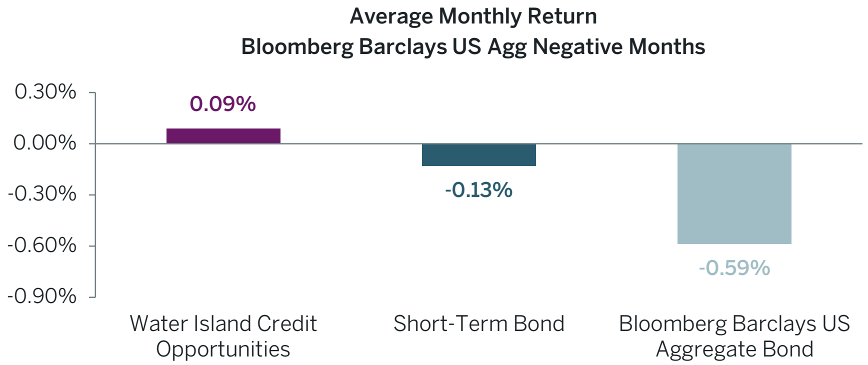
Asymmetric Returns vs. Traditional Bonds

Benefiting from Asymmetric Returns: Water Island Credit Opportunities has historically demonstrated the ability to generate positive returns in both bull and bear markets for traditional bonds (as represented by the Bloomberg Barclays US Aggregate Bond Index). The same cannot be said for short-term bond funds, which have traditionally struggled during times of market stress.

Water Island Credit Opportunities & Morningstar US Fund Short-Term Bond Category vs. Bloomberg Barclays US Aggregate Bond Index, October 1, 2012-June 30, 2018







As of June 30, 2018. *Performance for ACFIX is used. Source: Morningstar.*

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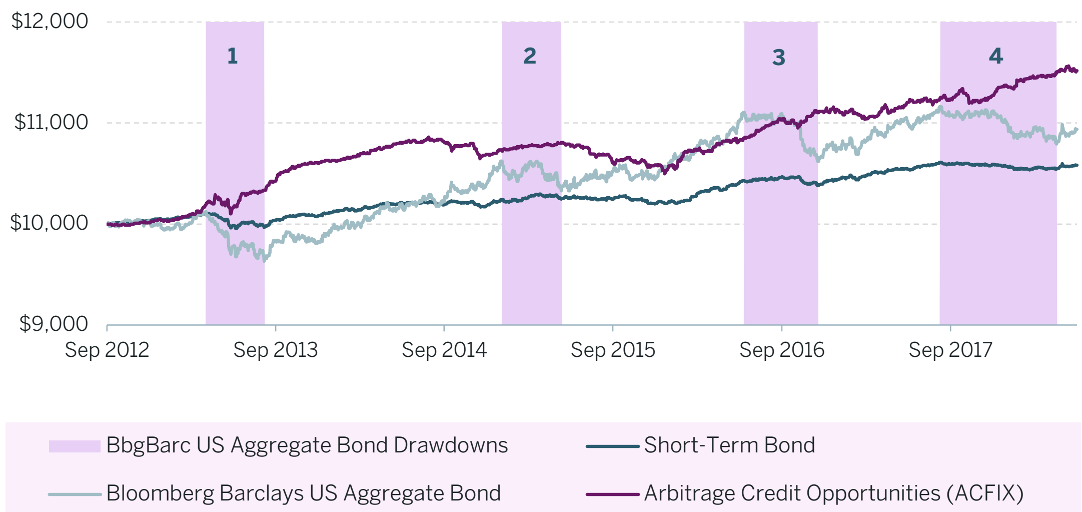
Benefits of a Catalyst-Driven Approach

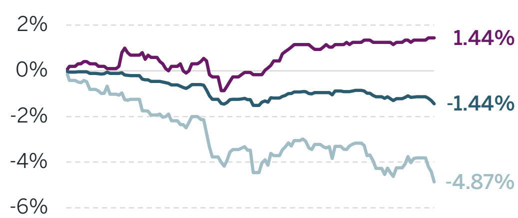
Performance During Drawdowns

Preservation During Times of Market Stress: During the four largest drawdowns in the Bloomberg Barclays US Aggregate Bond Index, Water Island Credit Opportunities has preserved investor capital. Contrast this with the performance of short-term bond funds, which failed to preserve investor capital in all but one period.

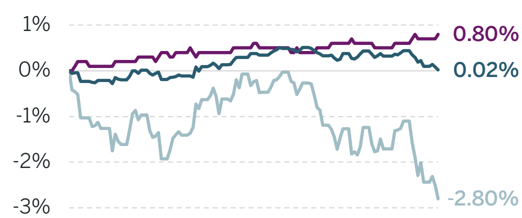
Growth of $10,000 Since Water Island Credit Opportunities Inception (Date Range: 10/1/12-6/30/18)



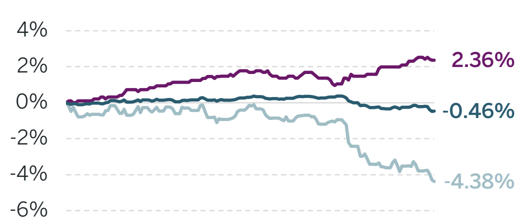
CUMULATIVE RETURN:
Taper Tantrum (1)
DATE RANGE: MAY 2, 2013 – SEPTEMBER 5, 2013 (126 DAYS)



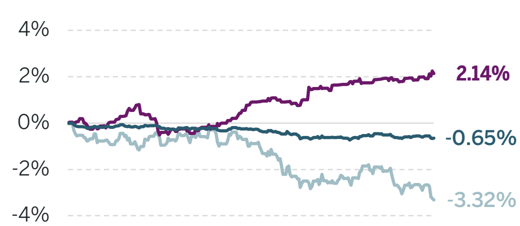
CUMULATIVE RETURN:
ECB* and US Treasury Rates Reversal (2)
DATE RANGE: FEBRUARY 2, 2015 – JUNE 10, 2015 (128 DAYS)



CUMULATIVE RETURN:
Election Volatility (3)
DATE RANGE: JULY 10, 2016 – DECEMBER 16, 2016 (159 DAYS)



CUMULATIVE RETURN:
US Interest Rate Normalization (4)
DATE RANGE: SEPTEMBER 7, 2017 – MAY 17, 2018 (252 DAYS)



** European Central Bank*

***As of June 30, 2018.** Source: Morningstar. Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an index. Please see Glossary for index definitions.*

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Historical Performance & Risk Statistics

Risk Statistics

	Water Island Credit Opportunities	Short-Term Bond	BBgBarc US Agg	ICE BofAML US High Yield
Annualized Return	2.49%	0.99%	1.67%	5.62%
Standard Deviation	1.65%	0.95%	2.80%	4.97%
Sharpe Ratio	1.25	0.60	0.42	1.04
Sortino Ratio	2.22	0.92	0.63	1.83
Effective Duration (Yrs)	0.72	2.19	5.94	4.19
Duration to Event (Yrs)	0.13	-	-	-
Alpha (vs. BBgBarc US Agg)	1.99%	0.24%	-	4.57%
Alpha (vs. ICE BofAML US High Yield)	1.22%	-0.10%	0.33%	-
Beta (vs. BBgBarc US Agg)	0.06	0.28	-	0.52
Beta (vs. ICE BofAML US High Yield)	0.16	0.13	0.17	-
Correlation (vs. BBgBarc US Agg)	0.10	0.82	-	0.29
Correlation (vs. ICE BofAML US High Yield)	0.49	0.67	0.29	-

Annual Returns

	2017	2016	2015	2014	2013	2012
Water Island Credit Opportunities	1.43%	5.00%	-0.98%	0.87%	5.84%	0.14%
Short-Term Bond	1.73%	2.08%	0.19%	1.07%	0.45%	0.38%
BBgBarc US Agg	3.54%	2.65%	0.55%	5.97%	-2.02%	0.21%
ICE BofAML US High Yield	7.48%	17.49%	-4.64%	2.50%	7.42%	3.18%

Trailing Returns

	3 Mo.	YTD	1 Yr.	3 Yr.	5 Yr.	Inception
Water Island Credit Opportunities	0.63%	2.17%	2.77%	2.26%	2.54%	2.49%
Short-Term Bond	0.28%	-0.07%	0.39%	1.02%	1.18%	0.99%
BBgBarc US Agg	-0.16%	-1.62%	-0.40%	1.72%	2.27%	1.57%
ICE BofAML US High Yield	1.00%	0.08%	2.53%	5.55%	5.51%	5.62%

As of June 30, 2018. *Performance for ACFIX is used. Source: Morningstar, Water Island Capital. Risk Statistics are since fund inception (October 1, 2012). 2012 returns are from ACFIX inception (October 1, 2012) – December 31, 2012.*

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. The Total Annual Fund Operating Expense for ACFIX is 1.69% gross and 1.16% net. 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 0.98% for Class I shares. The agreement remains in effect until September 30, 2020. Without such fee waivers, performance numbers would have been reduced. Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs, or expenses. Please see Glossary for index definitions.*

GLOSSARY

Alpha: A measure which gauges the performance of an investment against a market index or benchmark which is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha.

Asymmetric Returns: Refers to a risk/reward profile that is imbalanced, or skewed toward the upside rather than the downside.

Beta: A measure of the volatility of a portfolio in relation to the market as a whole, indicates the tendency of a portfolio to respond to swings in the market.

Bloomberg Barclays US Aggregate Bond Index (BBgBarc US Agg): An index that represents the U.S. investment-grade fixed rate bond market.

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 : The difference in yield between U.S. Treasury bonds and debt securities with the same maturity but of lesser quality.

Credit Spread Risk: The risk that changes in credit spreads will affect the value of certain debt instruments, whose prices typically move in an inverse fashion.

Effective Duration: A duration calculation for bonds with embedded options that takes into account the fact that expected cash flows will fluctuate as interest rates change.

Intercontinental Exchange Bank of America Merrill Lynch US High Yield Total Return Index (ICE BofAML US High Yield): An index that represents the U.S. 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.

Money Market Fund: An open-ended mutual fund that invests in short-term debt securities such as US Treasury bills and commercial paper. Money market funds are widely (though not necessarily accurately) regarded as being as safe as bank deposits yet providing a higher yield.

Morningstar US Fund Short-Term Bond Category (Short-Term Bond): Comprised of portfolios which invest primarily in corporate and other investment-grade U.S. fixed income issues and typically have durations of 1.0 to 3.5 years.

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.

Sortino ratio: A measure of risk-adjusted returns, although it uses downside deviation rather than standard deviation as the denominator, and therefore does not penalize volatility from positive performance.

Standard Deviation: Measures the degree of variation of returns around the average return.

IMPORTANT INFORMATION

An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. The current prospectus contains this and other information about the Fund. 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 Fund will meet its stated objective.

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 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 (the risk that lower rated debt instruments are more likely to default on debt obligations), and interest rate risks, which may increase volatility and may increase costs and lower performance. Past performance is not a guarantee of future results.

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