WATER ISLAND CREDIT OPPORTUNITIES FUND

Q2 2018 COMMENTARY

PORTFOLIO REVIEW

The Water Island Credit Opportunities Fund (ACFIX) returned 0.63% for the second quarter of 2018 and 2.17% for the year-to-date period. The Bloomberg Barclays US Aggregate Bond index returned -0.16% and -1.62%, while the ICE Bank of America Merrill Lynch US High Yield index returned 1.00% and 0.08%, for the same periods, respectively.

At quarter-end, the effective duration of the portfolio was 0.7 years, with a duration to event (our internal measure of the duration of the portfolio based on expected timing to completion of a catalyst) of 0.1 years.

MARKET PERSPECTIVE

Markets gyrated during the second quarter as investors struggled to gauge headlines centered around trade-related issues between the US and China. With little clarity around the timing or impact of negotiations, fears persist that any escalation could lead to a general tightening in financial conditions or loss of investor confidence. Additionally, fixed-income investors remain focused on global central banks, where plans to remove quantitative easing policies continue to develop.

While interest rate fears persist, demand for short-duration fixed income assets has increased, as investors see an opportunity to benefit from a flattening yield curve. Simply put, investors can now obtain yields at the short-end of the curve without the duration risk seen in the longer-end of the curve. For our portfolio, the increase in short-term risk-free rates may enhance return potential given that many of our catalyst-driven investments feature a short-duration profile.

Our continued focus on generating returns tied to specific catalysts and events rather than on market direction led to positive performance for the second quarter. Uncertainty around trade disputes appears to have curtailed activity in certain sectors with global exposure, but we have observed an increase in deals within the communications, financial, and energy sectors. Merger-related situations were a highlight of the period, as we invested in the bonds of several target companies where we expect the debt to be redeemed at the close of each transaction. We have also seen an increase in transactions where the buyer and seller are both private equity firms. These deals have no publicly-traded equity, but they present opportunities for the fund as there is often outstanding debt at the target companies which needs to be redeemed to complete the transaction.

While the market appears to be in a holding pattern brought about by both political and macro factors, we believe mergers and acquisitions (M&A) will remain active. Private equity funds have raised significant capital, which they will be eager to deploy. Away from M&A, we are seeing investment opportunities in companies that have entered asset purchases, asset dispositions, and spin-offs. These situations form the basis for long investments where we seek issuers that we believe are taking the most prudent steps toward moving their companies forward while maintaining or decreasing debt levels through growth, synergies, and favorable integrations. For our short investments, we are looking at companies which have significantly increased debt and/or have overpaid for assets to attain shareholder growth. Spin-offs also create opportunities for the fund when debt needs to be refinanced to facilitate the transaction.

Our focus, as always, remains on investments that follow the outcomes and timelines of specific catalysts and events that can provide a return profile to our investors largely uncorrelated to the overall markets. With numerous catalysts on the horizon, we continue to believe 2018 will be a supportive and profitable year for our strategy.

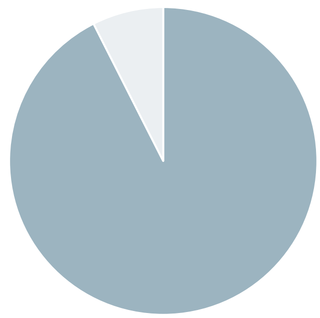
TRAILING RETURNS (ACFIX) AS OF 6/30/18	
1-Year	2.77%
5-Year	2.54%
Since Inception (10/1/12)	2.49%

Performance greater than one year is annualized.

CREDIT QUALITY AS OF 6/30/18

Subject to change. Reflects long exposure as percent of net assets.

GEOGRAPHIC EXPOSURE AS OF 6/30/18



Subject to change. Reflects long exposure as percent of net assets.

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 higher or lower than the performance quoted. For performance data current to the most recent month end, please call (800) 295-4485. 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.

TOP CONTRIBUTORS

Rent-A-Center Inc — Rent-A-Center (RCII) operates franchised and company-owned Rent-A-Center and ColorTyme rent-to-own merchandise stores that offer home electronics, appliances, furniture, and accessories under flexible rental purchase agreements. During 2017 we initiated a position in the company's bonds following a confirmed offer from Vintage Capital Management. The company subsequently conducted a full assessment of strategic alternatives, and in June RCII agreed to an increased offer of $15 per share from Vintage. Consequently, our position in the company's bonds responded favorably which led to gains for the portfolio. We now anticipate the transaction closing in the latter half of 2018, at which point we expect our bonds to be redeemed.

Impax Laboratories Inc — In October 2017, Impax – a US-based specialty pharmaceutical company – and privately-held generic drug manufacturer Amneal Pharmaceuticals announced plans to merge operations. We initiated a position in Impax subsequent to the the announcement. In Q2, the transaction successfully closed following the receipt of required regulatory approvals and the completion of other closing conditions. This led to a redemption of our bonds and gains for the portfolio.

Kindred Healthcare Inc — Kindred is the largest provider of post-acute healthcare services in the US. During the quarter, the company received final regulatory approvals related to its acquisition by TPG Capital, Welsh Carson Anderson & Stowe, and Humana Inc. This led to portfolio gains, and we expect the bonds to be redeemed in early July.

TOP DETRACTORS

NXP Semiconductors NV / Qualcomm Inc — During Q2 2018, NXPI's merger with Qualcomm became caught directly in the ongoing trade dispute between the US and China, which has led to a delay in the regulatory approvals necessary for the deal to complete. While the politics make it difficult to accurately assess the deal's probability of success, we remain invested in these bonds for several reasons: 1) the convertible bonds have roughly half to one-third less volatility than the underlying equity due to their inherent structure; 2) we are at levels where the upside/downside of the transaction is better than 2:1; and 3) we are able to use the equity as a hedge against the convert thereby creating optionality for the fund while simultaneously decreasing our downside.

GenOn Mid-Atlantic LLC — Our investment in GenOn Mid-Atlantic bonds was predicated on collecting an annual coupon of 10.06% knowing that the company intended to repay the full principal amount of these senior secured bonds plus accrued interest as part of the restructuring of GenOn Energy. The bonds were redeemed in full in April 2018. Although GenOn bonds were a positive contributor to fund returns since the inception of the investment, mark-to-market pricing from the start of the quarter led to a small loss during the period.

Wyndham Destinations Inc — During Q2, Wyndham Worldwide (WYN) spun off its hotel management business into Wyndham Hotels (WH), leaving the remainder of the company to focus on its timeshare business. In addition, La Quinta sold its hotel management business to WYN and then spun-off its hotel real estate into a REIT named Corepoint Lodging (CPLG). We saw an opportunity to implement a long/short relative value trade between the bonds of Hilton Grand Vacation and Wyndham where we see securities with very similar yields but with different leverage profiles. While this position detracted slightly from returns for the quarter, we still have conviction in our thesis.

GLOSSARY: *Duration* is the approximate percentage change in a bond's price that will result from a 1% change in its yield. *Quantitative easing* is a monetary policy whereby a central bank purchases government other securities from the market in order to lower interest rates and increase the money supply. A *spin-off* is the creation of an independent company through the sale or distribution of new shares of an existing unit of a parent company. A *yield curve* plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.