WATER ISLAND CREDIT OPPORTUNITIES FUND

Q4 2018 COMMENTARY

PORTFOLIO REVIEW

The Water Island Credit Opportunities Fund (ACFIX) returned -0.83% for the fourth quarter of 2018 and 1.83% for the year. The Bloomberg Barclays US Aggregate Bond index returned 1.64% and 0.01%, while the ICE Bank of America Merrill Lynch US High Yield index returned -4.67% and -2.26%, for the same periods, respectively.

At quarter-end, the effective duration of the portfolio was 1.8 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 0.3 years.

MARKET PERSPECTIVE

2018 marked a significant period for investors as the Federal Reserve (Fed) continued to normalize interest rates in line with economic growth expectations. Markets were mostly unaffected by central bank actions until Q4, when investors capitulated to higher rates, reduced central bank support, and slowing global growth indicators. Trade fears may have also impacted sentiment and the S&P 500 produced its worst December performance (-9.0%) since the Great Depression. High-yield bond yields and spreads increased to 8.12% and 531 basis points (bps), respectively, which marked an increase of 1.95% and 228 bps above October's lows. These were the highest yields and spreads since 2016, leading to a -4.67% return for high yield bonds for the quarter.

The market sell-off in late December was exacerbated by Fed Chairman Jerome Powell who noted in a post-meeting press conference that the Fed balance sheet roll-off is on "auto pilot". Markets dropped as investors viewed this as an indication that the Fed was insensitive to the implicit impact to interest rates of reducing quantitative easing by $650 billion per year. As we entered 2019, Powell and the Fed stepped back from their earlier tone and said policy makers would "be patient and watching, and waiting and seeing" before adjusting interest rates again. Though this stance has caused 2019 rate hike probabilities to decline significantly, we still believe that we are in the later stages of the business cycle and that the reduction in central bank support coupled with questionable global growth and higher rates could lead to more volatility in 2019.

While macro discussions are important, our aim remains to generate returns from the timelines and outcomes of select catalysts rather than on market direction. As short-term rates rose during 2018, we observed wider and more attractive spreads for short-dated hard catalyst investments. Consequently, throughout the year we continued to move the majority of the portfolio into these situations, which contributed to positive returns and lower volatility – especially when compared to traditional fixed-income strategies.

Looking ahead, we are enthusiastic for 2019 as we see ample opportunity for catalyst-driven investments throughout the year. Driving our optimism are several factors. First, the trend of corporations taking actions to focus on their core businesses remains strong (some of which has been motivated by activist investors), leading to opportunities in assets sales, spin-offs, and mergers and acquisitions (M&A) on the horizon. Second, private equity (PE) funds are estimated to have raised over $250 billion in capital. Depending on leverage assumptions, PE buying power for potential M&A reaches nearly $1.4 trillion. The question remains as to how motivated PE buyers are to deploy this capital and at what valuation and leverage levels, but we believe more deals will arise during the year which should bring about more short-dated merger and refinancing activity. Finally, we think the closing of credit markets during Q4 may have caught the attention of corporate treasurers and CFOs. (Notably, December 2018 was the first month in which there was no new high yield debt issued since November 2008.) As corporations have capitalized on lower interest rates since the financial crisis, they may now be more incentivized to deleverage their balance sheets or refinance debt while markets are open for new issuance. As the old motto says, "Do it while you can, not when you have to."

We believe 2019 will be no easier to navigate than 2018, as many of the same challenges remain. We are aware that we are inching ever closer to some sort of recessionary event that would mark the end of this lengthy market cycle, and while the domestic economy still appears strong, sentiment can change quickly. Thus, we intend to maintain prudence and discipline in our approach as we strive to achieve our goals in the year ahead.

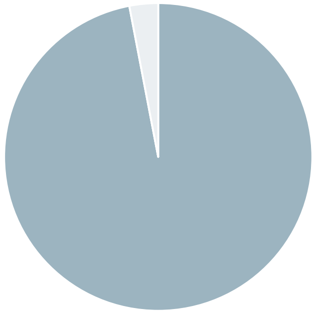
TRAILING RETURNS (ACFIX) AS OF 12/31/18	
1-Year	1.83%
5-Year	1.61%
Since Inception (10/1/12)	2.23%

Performance greater than one year is annualized.

CREDIT QUALITY AS OF 12/31/18

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

GEOGRAPHIC EXPOSURE AS OF 12/31/18



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 1.99%. 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

Market Hedges — From time to time, in addition to various issuer-specific hedges, we may choose to implement broader market hedges in the portfolio. The intent of these hedges is to reduce directional exposure and market risk while providing the portfolio with lower volatility and drawdowns. As credit markets experienced elevated volatility over the most recent quarter, these hedges served their intended purpose, helping to offset losses elsewhere in the portfolio.

Trinidad Drilling Ltd — During Q4, Trinidad Drilling Ltd was approached with two takeout offers: a friendly all-stock offer from Precision Drilling Corp, and a hostile all-cash offer from Ensign Energy Services. Trinidad's board recommended that shareholders reject Ensign's offer and accept the friendly bid from Precision Drilling. As markets (and energy specifically) declined during Q4, Precision Drilling's stock-based offer declined below the CAD$1.68 value of Ensign's bid. This was an investment opportunity for us that was not only supported by two buyers, but Trinidad's bonds entitled holders to a 101 change of control offer in the event of a completed transaction regardless of the buyer. During the quarter, Trinidad received the requisite number of votes to approve the cash deal with Ensign, and Trinidad's bonds traded up on the news contributing to positive returns for the portfolio during Q4.

DJO Global Inc — DJO Global manufactures and distributes orthopedic products used primarily by orthopedic medical specialists to treat patients with musculoskeletal conditions. The company was taken private by Blackstone in 2006. There are two catalysts we see in this position: first, the company is focused on addressing its 2021 debt prior to maturity, and second, in August, press reports indicated that Blackstone was exploring the sale of company. In November, Colfax Corporation announced that it would acquire DJO for $3.2 billion in cash. DJO's outstanding debt is expected to be extinguished upon the close of the merger slated during Q1 2019.

TOP DETRACTORS

Aleris International Inc — Aleris is a producer of aluminum parts for various industries. In 2016, Apollo announced the sale of the privately-held company to China-based Zhongwang USA. Due to issues with national-security related regulatory review in the US, the deal was ultimately terminated. In July 2018, Hindalco Industries of India announced its intent to acquire Aleris for $2.6 billion. Hindalco bonds traded down significantly after investors became concerned that the company's leverage would increase if it succeeded in acquiring Aleris. We assessed the bonds and recognized that prices reflected a worst-case scenario for leveraging. In reality, a planned equity issuance and stated leverage targets gave us comfort in purchasing these bonds at their 52-week lows as a hedge. While our hedge contributed to positive returns during Q3, the market rout in Q4 led to mark-to-market declines in Hindalco's bonds.

Vertiv Group Corp — During August, Reuters reported that Platinum Equity was exploring a potential sale or initial public offering of Vertiv, a provider of backup power and fail-safe systems for data centers. The PE firm hoped to value the company close to $6 billion, according to sources familiar with the matter. A successful deal would reflect the rapid growth of the data center industry. The sector has been experiencing significant demand as corporations continue to plow resources into cloud computing, which requires infrastructure such as Vertiv's offerings, to support it. An acquisition would result in a redemption of Vertiv's bonds, while an IPO could potentially be used to reduce outstanding debt. During Q4, we initiated a position Vertiv's bonds, but late in the quarter bonds declined in price due to market volatility and reduced confidence in a deal being announced in the near-term.

Banff Merger Sub Inc — Following KKR's purchase of BMC Software from Bain Capital and Golden Gate Capital in Q4, we purchased BMC's newly-issued bonds that were placed to finance part of the acquisition. We felt that the bonds were issued at a discount to market peers and that the yield was attractive for a short-term trade. However, volatile markets led to lower bond prices for high yield and investment grade credits which impacted BMC bonds and detracted from fund performance during Q4. We have since exited the position.

GLOSSARY: *Duration* is the approximate percentage change in a bond's price that will result from a 1% change in its yield. 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. *High yield* bonds have a credit rating lower than investment grade. *Quantitative easing* is a monetary policy whereby a central bank purchases government or other securities from the market in order to lower interest rates and increase the money supply. A *credit spread* is the difference in yield between a US Treasury bond and a debt security with the same maturity but of lesser quality. A *basis point* is an amount equal to 1/100 of 1%. The *S&P 500 Index* is an index of US equities meant to reflect the risk/return characteristics of the large cap universe, and is one of the most commonly used benchmarks for the overall US stock market.

IMPORTANT INFORMATION

An investor should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. The Fund's prospectus contains this and other important information. You may obtain a copy of the Fund's prospectus at http://arbitragefunds.com or by calling (800) 295-4485. Please read the prospectus carefully before investing.

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.

Top 10 holdings as of 12/31/18: Agiliti Health Inc 7.625% 8/15/20; Aleris International Inc 10.75% 7/15/23; Arconic Inc 1.625% 10/15/19; DJO Finance LLC 8.125% 6/15/21; Engility Corp 8.875% 9/1/24; Nielsen Holdings PLC 5.5% 10/1/21; Rent-A-Center Inc/TX 6.625% 11/15/20; Scientific Games Corp 10% 12/1/22; TIBCO Software Inc 11.375% 12/1/21; Trinidad Drilling Ltd 6.625% 2/15/25. Top 10 holdings represent 36.1% of the portfolio. Holdings are subject to change. Current and future holdings are subject to risk.

The Bloomberg Barclays U.S. Aggregate Bond Index covers the U.S. investment grade fixed rate bond market. The ICE Bank of America Merrill Lynch U.S. High Yield Index is a measure of the broad high yield market, commonly used as a benchmark for high yield corporate bonds. Indexes are unmanaged and one cannot invest directly in an index.

Material represents the manager's opinion and should not be regarded as investment advice or a recommendation of any security or strategy.