ARBITRAGE EVENT-DRIVEN FUND

Q3 2018 COMMENTARY

PORTFOLIO REVIEW

The Arbitrage Event-Driven Fund (AEDNX) returned -0.21% for the third quarter of 2018 and 0.53% for the year-to-date period. The S&P 500 index returned 7.71% and 10.56%, while the Bloomberg Barclays US Aggregate Bond index returned 0.02% and -1.60%, for the same periods, respectively. HFRI Event-Driven – an index of hedge funds focused on event-driven investing – returned 0.78% for the quarter and 2.79% year-to-date.

At quarter-end, the portfolio's strategy allocation was 42% merger arbitrage and 58% special situations.

TRAILING RETURNS (AEDNX) AS OF 9/30/18	
1-Year	1.26%
5-Year	0.35%
Since Inception (10/1/10)	1.55%

Performance greater than one year is annualized.

MARKET PERSPECTIVE

The Federal Reserve, seeking to normalize interest rates in response to strong economic growth and an extremely tight labor market, raised rates once again in Q3. Consensus suggests an additional hike before year-end, with three to four more next year, and we don't disagree. Nonetheless, investors were largely undeterred by rising rates and trade-related headlines, as strong consumer confidence and economic stability moved markets higher over the quarter. While investors may eventually begin to factor in elevated interest rates and the potential for increasing costs associated with tariffs, we welcome the rising rate environment with open arms. Rising rates typically act as a tailwind for merger arbitrage spreads, and this is a development for which we have been waiting patiently for over a decade.

Our outlook for merger arbitrage remains constructive. Global mergers and acquisitions (M&A) will likely continue at record levels, fueled by corporate tax cuts coupled with the repatriation of offshore cash by US companies. We're witnessing particularly aggressive activity within the internet infrastructure, biotech/pharmaceuticals, industrials, chemicals, and consumer sectors. That said, the ongoing trade dispute between the US and China keeps us cautious regarding exposure to high profile transactions requiring approval from China's regulators. Holding the regulatory approval process hostage in retaliation for tariffs or sanctions would not be out of character, as China has already demonstrated a willingness to reject or delay mergers – especially in industries China deems vital to the achievement of its economic development plans (e.g. semiconductors, artificial intelligence, 5G) – based on political motives.

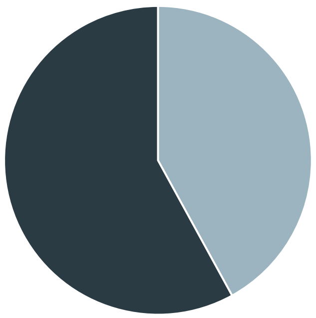
We do not anticipate the rising rate environment will disrupt deal flow, though we are cognizant of the risks associated with rising rates for those transactions involving high levels of leverage. More broadly, today's environment reminds us of the excesses of 2006-2007, with disproportionate risk-taking on the part of financial buyers, and we are focused on the potential risks that such excesses can bring.

For our credit-related investments, we believe short-duration catalysts can also benefit from the higher risk-free rate. Increased demand for short-duration fixed income assets has led to a flatter yield curve, which continues to offer investors the ability to capture yields without the duration risk commonly associated with longer-dated bonds. While increased interest rates may dampen refinancing activity, we continue to see private equity (PE) funds raising significant capital. These firms are not only focused on taking public companies private, but they are also looking at peer PE firms seeking to monetize their own investments. In situations involving the sale of a private company, the issuer bonds are often subject to redemption provisions that are triggered by the company sale. These are situations that we follow very closely to find the most attractive merger-related opportunities.

In our special situations sleeve, the pipeline of announced spin-offs for Q4 is promising, and the universe of speculative M&A opportunities has begun ramping up again following a lull of activity mid-year. In addition, we believe continued economic growth in the US bodes well for re-rating opportunities. These types of catalysts are generally less definitive in nature and have longer timelines, and we do anticipate heightened volatility in these investments – particularly with the potential impact of rising costs and other headwinds on future corporate earnings. As such, we remain focused on achieving better long/short balance as additional short opportunities arise.

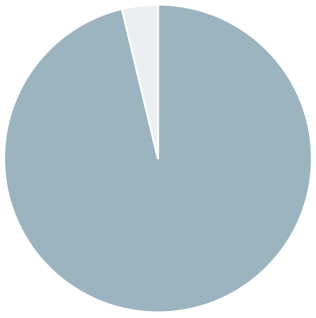
Q4 should prove to be an interesting time for investors. Aside from rising interest rates, investors will need to grapple with the US/China trade dispute, focus on Italian government budget negotiations, and look toward Q3 earnings and any guidance regarding higher input costs. Mid-term elections could also impact volatility and market direction. Regardless of these risks, we will continue to focus on delivering returns independent of market moves. As we near the end of the first decade following the financial crisis, we recognize that the recovery has been a long one by historic standards. We are also aware that the cycle could turn at any point and bring about a completely new set of investments and opportunities. While it is difficult to predict when such a change will occur, we are fortunate to have the team and process in place to take advantage of long and short investments amid higher rates, market dislocations, and an ever-changing investment landscape.

STRATEGY ALLOCATION AS OF 9/30/18



Subject to change. Reflects strategy gross exposure as percent of total gross exposure.

GEOGRAPHIC EXPOSURE AS OF 9/30/18



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 lower or higher 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 AEDNX is 2.38%. The Advisor has agreed to waive fees in excess of 1.44% for AEDNX until September 30, 2019, excluding the effects of interest, dividends on short positions, brokerage commissions, acquired fund fees and expenses, taxes, or other extraordinary expenses. Without such fee waivers, performance numbers would have been reduced.

TOP CONTRIBUTORS

Sky PLC / Twenty-First Century Fox Inc — In December 2016, Twenty-First Century Fox – a US television and film company – entered into a definitive agreement to acquire Sky – a UK pay-television service operator – for $23 billion. During Q1 2018, the fund benefited from a topping bid for Sky on the part of Comcast (a $42 billion offer) which led to shares trading through the terms of Fox's original offer. In addition (to make matters more complicated), Fox itself became the subject of a bidding war between Disney and Comcast. While Comcast ultimately abandoned its pursuit of Fox, it remained focused on Sky. In September, the failure to resolve the competing bids forced a rather uncommon mandatory auction process under UK takeover code. Comcast emerged victorious, with a winning bid that was 60% greater than Fox's original offer in December 2016, leading to a profit for the fund.

Starz Inc / Lions Gate Entertainment Corp — On June 30, 2016, Lions Gate Entertainment – a US-based producer and distributor of film and television entertainment – announced a definitive agreement to acquire Starz – a US-based distributor of subscription-based entertainment programs – for $3.6 billion in cash and stock. The deal closed successfully on December 8, 2016. We are currently pursuing event-driven litigation following the completion of this transaction and during Q3 2018, the mark-to-market valuation of this position contributed to returns.

Tribune Co / Sinclair Broadcast Group Inc — In May 2017, Sinclair – a US diversified television broadcasting company – entered into a definitive agreement to acquire Tribune – a US media company with operations in publishing, television and radio stations – for $6.6 billion. During Q2 2018, the deal spread widened following reports the FCC would solicit additional comments and may wait to render its decision until after a federal appeals court ruled on whether the agency can continue to allow companies to only partially count certain stations against ownership cap restrictions. In Q3, the transaction was officially called off, after the companies and the FCC were unable to come to an agreement. Despite the deal termination, Tribune's stock traded up based on speculation that an unnamed third party – which had been mentioned as an interested suitor in the merger background – may launch its own bid for the company. In addition, Tribune shares were further supported by news of a lawsuit it launched against Sinclair, whereby the company alleged Sinclair mishandled the FCC negotiations and is seeking $1 billion in damages.

TOP DETRACTORS

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 equity markets rallied over the quarter, these hedges detracted from returns.

NXP Semiconductors NV / Qualcomm Inc — In October 2016, Qualcomm – a US telecommunications equipment provider – entered into a definitive agreement to acquire NXP Semiconductors – a Dutch provider of mixed-signal semiconductor solutions – for $53 billion. As of Q1 2018, the deal had received regulatory approvals from all required jurisdictions with the exception of one: China. Approval from Chinese authorities appeared imminent when, in Q2, the transaction was caught in the crossfire of the ongoing trade dispute between the US and China, with China initially refusing to approve any transactions involving the US. Investors subsequently fled for the exits, leading to a sharp decline in NXP's share price and driving the deal spread wider. The deal was ultimately withdrawn when, after Chinese regulators had yet to approve the deal, the parties declined to extend the merger deadline, leading to a loss for the fund.

CorePoint Lodging Inc — CorePoint Lodging is a real-estate investment trust spun off from La Quinta that now owns the hotel assets of the former parent. In May, La Quinta held its first earnings announcement, which disappointed investors with soft margin guidance and lower expected cash balances due to a change in anticipated tax reimbursement proceeds from its former parent (now owned by Wyndham Hotels & Resorts). We believe the business is fundamentally undervalued and have added to our position, but recognize a turnaround will take time as management looks to restore confidence in the business and outlook.

GLOSSARY: *Deal flow* refers to the volume of announced mergers and acquisitions activity. 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. *Duration* is the approximate percentage change in a bond's price that will result from a 1% change in its yield. A *yield curve* plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

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 with risks that are different from the risks ordinarily associated with equity investments. Such techniques and strategies 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 US issuers), credit risks, interest rate risks, and convertible security risks, which may increase volatility and may increase costs and lower performance. Bonds and bond funds will decrease in value as interest rates increase.

Top 10 holdings as of 9/30/18: Altaba Inc; Forest City Realty Trust Inc; GameStop Corp 6.75% 3/15/21; LifePoint Health Inc 5.375% 5/1/24; Pinnacle Foods Inc; RR Donnelley & Sons Co 7.625% 6/15/20; Trinity Industries Inc; Twenty-First Century Fox Inc; Vectren Corp; Wyndham Hotels & Resorts Inc. Top 10 holdings represent 31.4% of the portfolio. Holdings are subject to change. Current and future holdings are subject to risk.

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. The Bloomberg Barclays US Aggregate Bond Index covers the US investment grade fixed rate bond market. The HFRI Event-Driven Index includes funds who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. 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.

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