ARBITRAGE EVENT-DRIVEN FUND

Q4 2018 COMMENTARY

PORTFOLIO REVIEW

The Arbitrage Event-Driven Fund (AEDNX) returned -0.67% for the fourth quarter of 2018 and -0.15% for the year. The S&P 500 index returned -13.52% and -4.38%, while the Bloomberg Barclays US Aggregate Bond index returned 1.64% and 0.01%, for the same periods, respectively. HFRI Event-Driven – an index of hedge funds focused on event-driven investing – returned -4.43% for the quarter and -1.73% for the year.

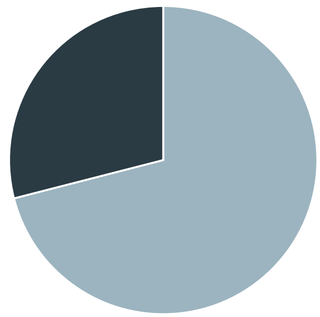
At quarter-end, the portfolio's strategy allocation was 71% merger arbitrage and 29% special situations.

TRAILING RETURNS (AEDNX) AS OF 12/31/18

1-Year	-0.15%
5-Year	-0.20%
Since Inception (10/1/10)	1.42%

Performance greater than one year is annualized.

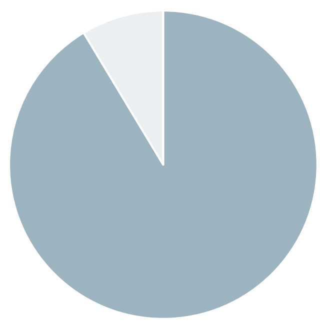
STRATEGY ALLOCATION AS OF 12/31/18



Merger Arbitrage (71%)
Special Situations (29%)

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

GEOGRAPHIC EXPOSURE AS OF 12/31/18



Americas (89%)
APAC (0%)
EMEA (8%)

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

MARKET PERSPECTIVE

A year ago, we reflected on a period that had proven to be one of the least volatile years for equity markets in decades. What a difference a year makes. In 2018, volatility returned in earnest – with the S&P 500 experiencing levels of daily volatility more than 2.5 times greater than in 2017, marking the most volatile year for the market since 2011. The uncertainty began shortly after the start of the year and was influenced by several factors, including the removal of the Federal Reserve's (Fed) quantitative easing policies, higher short-term interest rates, steady economic growth, higher potential inflation, and international trade disputes. While the markets were calmer mid-year, in Q4 further concerns about rate hikes, the roll-off of the Fed's balance sheet, and fears of slowing economic growth led to a downward spiral in credit and equity markets. We anticipate additional volatile periods in 2019, and as such, we have shifted our portfolio allocation to focus more on the harder – or more definitive – end of the catalyst spectrum, as harder-catalyst, shorter-duration situations such as definitive, announced mergers and acquisitions (M&A) inherently have lower correlation to market swings, helping insulate the portfolio during times of stress.

We remain highly optimistic about the prospects for merger arbitrage, as we continue to experience favorable conditions for the three primary driving factors of the strategy's returns (deal flow, interest rates, and volatility). We anticipate the strong levels of deal flow of the past few years will continue. Technology and pharmaceuticals may prove particularly fruitful for continued consolidation. Private equity (PE) buyers also have massive amounts of capital sitting on the sidelines waiting to be deployed into future transactions. (The funds raised in the past two years alone represent nearly $1.4 trillion in buying power for potential M&A, depending on leverage ratios used.) While this capital was largely dormant during Q4 due to volatility in the credit markets, PE buyers will likely re-enter the market eventually, lest they risk having to return money to investors and forego collecting management fees on unused capital. Short-term interest rates – which typically act as a tailwind for merger arbitrage returns, resulting in higher spread opportunities for arbitrageurs – have been on the rise. And as mentioned above, there has been no shortage of volatility in the market. At the same time, regulatory issues remain a primary concern. Geopolitical uncertainties and the trade dispute between the US and China continue to have the potential to impact the regulatory approval process, as the risk remains that regulatory bodies such as China's State Administration for Market Regulation (SAMR) and the Committee on Foreign Investment in the United States (CFIUS) may be used to carry out political agendas. While such issues were prevalent for much of 2018, there is now an added wrinkle of the government shutdown in the US, during which several key agencies will be forced to delay or are unable to process regulatory approvals for M&A.

For our softer-catalyst special situations, we continue to see opportunities in speculative M&A, asset sales, and re-ratings. In addition, the spin-off calendar is full, with the slate of announced transactions for 2019 already above the average for a one-year period. That said, we are currently taking a conservative approach, focusing more on credit-based opportunities, which tend to have a lower volatility profile than equity special situations. In addition, while we remain attentive to long/short balance in this section of the portfolio, exposure is currently tilted more toward the long side. Q4 presented opportunities to monetize existing shorts while also proving a difficult market for finding new short opportunities, with most of the event premium having been taken out of soft catalyst names, and we may need to experience a period of stability in the markets before attractive short opportunities present themselves again.

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.

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

Twenty-First Century Fox Inc / Walt Disney Co — In December 2017, Disney – a US media and entertainment company – entered into a definitive agreement to acquire the entertainment business of Fox – a US television and film company – for $52 billion. Following a brief bidding war with Comcast, which had launched its own bid for Fox in June 2018, Disney ultimately emerged with the winning bid, raising its offer to $71 billion. In November, the deal received regulatory approval from both the European Commission and from China, two key hurdles for completion. The deal spread tightened on the news, leading to gains for the fund. Brazil is the final key regulatory approval that remains, and we expect the transaction to be completed in Q1 2019.

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, Comcast launched a competing $42 billion offer for Sky, 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.

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 experienced significantly elevated volatility over the quarter, these hedges served their intended purpose, helping to offset losses elsewhere in the portfolio.

TOP DETRACTORS

Hain Celestial Group Inc — Hain Celestial is a packaged food good company focused on natural, organic, and "better for you" brands. The company has largely been a roll-up of smaller brands by CEO and founder Irwin Simon, who is well-respected in the industry for identifying good brands. He has not, however, been as effective at integrating these brands, extracting synergies, and managing for profitability. In late 2017, activist investor Engaged Capital took an 11% stake in Hain and proceeded to gain board seats and successfully force the resignation of Irwin Simon. When rumors emerged that Hain had an interested buyer for all but its Hain Pure Protein segment – a commodity organic chicken business – the company put the division up for strategic review, potentially easing the path to a sale. On its November earnings call, however, the company indicated it had pushed back any sale of Hain Pure Protein while the fundamentals of the rest of the company continued to deteriorate. We have since exited the position given the continued weakening fundamentals and extension of the duration of the investment thesis.

Netgear Inc — Netgear is a consumer-focused manufacturer of wired and wireless routers and networking products. In February 2018, Netgear announced it would spin-off its Arlo security camera business into a new company. In July 2018, we initiated a position in Netgear on the belief that by distributing Arlo shares to Netgear shareholders, the company would unlock the significant inherent value locked-up in the core router business. Unfortunately, with a small public Arlo float limiting our ability to fully hedge out our implied Arlo exposure, the position became a detractor after Arlo significantly declined in value due to missing a key launch date before Q4 holidays for its next generation product, an earnings miss on gross margin expectations, and the broader market sell-off over the quarter. We continue to see value in the core Netgear holdings but have sized the position according to the level of Arlo exposure with which we are comfortable.

Herc Holdings Inc — Herc Holdings is an equipment rental company serving primarily the commercial and residential construction sectors. We have been long Herc against a short position in United Rentals since its spin-off from Hertz Global on the belief that over time, Herc will continue to execute and close the EBITDA margin gap between itself (in the mid-30s percent) and higher-margin peers such as United Rentals (in the high-40 percent range). Herc is also seen as a potential takeout candidate as the industry continues to be consolidated by United Rentals and Ashtead. Despite concern around slowing domestic growth, we continue to believe Herc will out-execute its peers and de-lever its balance sheet over time, resulting in value accretion to shareholders.

GLOSSARY: *Deal flow* refers to the volume of announced mergers and acquisitions activity. A *deal spread* is the difference between the price at which a target company's shares currently trade and the price an acquiring company has agreed to pay. 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. *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.

IMPORTANT INFORMATION

Top 10 holdings as of 12/31/18: DJO Finance LLC 8.125% 6/15/21; Dun & Bradstreet Corp/The; Engility Corp 8.875% 9/1/24; GameStop Corp 6.75% 3/15/21; Imperva Inc; SodaStream International Ltd; Tribune Media Co; Trinidad Drilling Ltd 6.625% 2/15/25; Twenty-First Century Fox Inc; Vectren Corp. Top 10 holdings represent 40.4% 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.