ARBITRAGE TACTICAL EQUITY FUND

Q3 2018 COMMENTARY

PORTFOLIO REVIEW

The Arbitrage Tactical Equity Fund (ATQIX) returned -2.35% for the third quarter of 2018 and -1.87% for the year-to-date period. The HFRX Special Situations index – an index of hedge funds focused primarily on catalyst-oriented investments in equity and equity-related securities – returned -1.90% and -5.78%, while the S&P 500 index returned 7.71% and 10.56%, for the same periods, respectively.

At quarter-end, the portfolio's long/short alpha exposure was 68% long investment ideas and -13% short investment ideas.

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.

We do not anticipate the rising rate environment will disrupt mergers and acquisitions (M&A) deal flow as interest rates remain cheap and capital markets remain very open, as witnessed by the $14 billion debt financing that was easily secured for Blackstone's purchase of Thomson Reuters' Financial & Risk unit.

Blackstone's all-in $20 billion leveraged buyout marks a return of the mega-leveraged-buyouts (LBOs) we have not seen since the pre-financial crisis era and is an indication of the large cash piles that private equity firms are eager to put to work. Indeed, since that transaction closed, the financial press has speculated several other potential mega-LBOs are in the works, including Apollo's approach for Arconic ($14B+ potential transaction value), the approach by Blackstone, Carlyle and others for Nielsen Holdings ($17B+ potential transaction value) and Thoma Bravo's approach for Symantec.

While our year-to-date returns have been mixed in our speculative M&A bucket, we remain optimistic around the strategy as our universe of opportunities has begun ramping up again following a lull of activity mid-year. We also remain excited with spin-off opportunities given the robust pipeline coming to market in Q4.

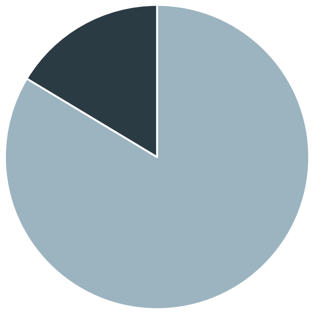
Tempering our excitement is our continued cautiousness with equity market valuations compounded by recent lower realized volatility. Easing trade tensions with the announcement of new trade agreements with Canada, Mexico and the US has fueled a rise in valuations that do not appear to adequately discount the continued risks from rising interest rates, continued US/China trade disputes, decelerating growth, and rising inflation. As many of our investments have longer timelines, we do anticipate heightened volatility and remain focused on achieving better long/short balance as additional short opportunities arise.

Q4 should prove to be an interesting time for investors with mid-term elections potentially impacting 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.

TRAILING RETURNS (ATQIX) AS OF 9/30/18	
1-Year	-0.50%
3-Year	2.56%
Since Inception (12/31/14)	0.15%

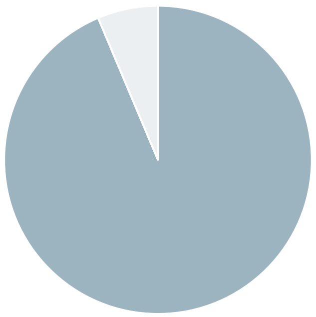
Performance greater than one year is annualized.

LONG/SHORT ALLOCATION AS OF 9/30/18



Subject to change. Reflects alpha security exposure as percent of net assets.

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 ATQIX is 12.34%. The Total Annual Fund Operating Expense After Fee Waiver is 2.17%. The Fund has entered into an Expense Waiver and Reimbursement Agreement with the Fund's investment adviser pursuant to which the adviser has contractually agreed to limit the total annual operating expenses of the Fund, not including taxes, interest and dividends on short positions, brokerage commissions, acquired fund fees and expenses and other extraordinary expenses, so that they do not exceed 1.44% of the Fund's average daily net assets, until September 30, 2019. Without such fee waivers, performance numbers would have been reduced.

TOP CONTRIBUTORS

Perspecta Inc — In June 2018, Perspecta's shares moved lower after its spin-off from DXC Technology amid technical selling pressure and concerns around a large contract set for renewed bidding later this year. However, after a solid earnings call where the company reiterated its fiscal year guidance, as well as positive analyst upgrades around an increased probability the company would retain its contract, shares recovered and we exited our position at a profit shortly thereafter.

DXC Technology Co — We invested in DXC Technology in May 2018 ahead of its planned spin-off of its government IT service company, Perspecta. Our investment thesis was predicated on both technical and fundamental factors. From the technical aspect, Perspecta was less than 15% of the value of DXC's share price and wasn't core to most long-term investors' views around owning DXC. As such, we believed core long term shareholders would sell Perspecta and re-invest the proceeds back into DXC creating a technical buying demand for the stock. Fundamentally, we believed that DXC had significantly more opportunity to improve operating margins post-spin, as there were still synergies arising from the integration of its enterprise services transaction with Hewlett Packard Enterprise, which completed in April 2017. In addition, we viewed DXC's growing digital business as an opportunity to improve the total top line revenue growth of the consolidated company moving forward. While shares were volatile after the initial spin, solid earnings in August propelled the stock to our price target and we exited our position.

Avaya Holdings Corp — Avaya is a name we know well, having followed its re-emergence from bankruptcy in December 2017 and participated in the re-rating of its re-organized equity through our debt holdings. This provided us an opportunity to purchase shares after the announcement of a convertible bond issuance created a technical overhang on the stock in June 2018. As convertible arbitrage bond investors traditionally hedge a portion of their positions by shorting the equity, we didn't believe the sell-off to be indicative of a problem with the underlying fundamentals of the company. We were rewarded after the company reported solid earnings in August, allowing us to exit our position after achieving our price target.

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.

CorePoint Lodging Inc — CorePoint Lodging is a real-estate investment trust spun-off from La Quinta that now owns the hotel assets of its former parent. In May, La Quinta announced its first earnings report, which disappointed investors with soft margin guidance and a lowered expectation of cash balances due to a change in expected 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.

Wyndham Hotels & Resorts Inc — Wyndham Hotels & Resorts is a hotel management and franchise company that was spun-out of Wyndham Worldwide, which was predominantly a timeshare ownership business. We believe the stock should re-rate in line with other hotel management and franchise companies post-spin. While the company has consistently outperformed earnings expectations, negative sentiment during the quarter led to mark-to-market losses in the position. We continue to believe the multiple gap will close once investors better understand the asset light nature of the business.

GLOSSARY: 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. *Alpha* is a measure of the excess return of a fund relative to a benchmark index. *Long and short alpha exposure* reflect the aggregate amount of capital, as a percent of net assets, invested in the primary securities of long investment ideas and short investment ideas (i.e., excluding hedges). *Deal flow* refers to the volume of announced mergers and acquisitions activity. A *market dislocation* is a circumstance in which financial markets, operating under stressful conditions, cease to price assets correctly on an absolute or relative basis.

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 equity investments. Such risks include value style risks, credit risks, distressed securities risks, interest rate risks, commodities risks, foreign securities risks (the securities of foreign issuers may be less liquid and more volatile than securities of comparable US issuers), emerging market risks, currency risks, convertible security 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), derivatives risks, options risks, futures risks, swap risks, credit default swap risks, total return swap risks, counterparty risks, leverage risks, exchange traded note risks, other investment companies risks, preferred stock risks, warrants risks, non-diversification risks, and high portfolio turnover risks (which may increase the Fund's brokerage costs, which would reduce performance), which may increase volatility and may increase costs and lower performance.

Top 10 holdings as of 9/30/18: Aetna Inc; Altaba Inc; athenahealth Inc; FGL Holdings; Forest City Realty Trust Inc; Herc Holdings Inc; Macerich Co/The; Travelport Worldwide Ltd; Trinity Industries Inc; Wyndham Hotels & Resorts Inc. Top 10 holdings represent 34.4% 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 HFRX Special Situations Index includes funds that employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction, security issuance/repurchase, asset sales, division spin-off or other catalyst oriented situation. 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.