

PORTFOLIO REVIEW

Arbitrage Fund (ARBFX) returned -0.89% for the third quarter of 2021 and 1.21% for the year-to-date period. The S&P 500 index returned 0.58% and 15.92%, while the Bloomberg US Aggregate Bond index returned 0.05% and -1.55%, for the same periods, respectively. HFRI Merger Arbitrage – an index of hedge funds focused on the merger arbitrage strategy – returned 0.85% for the quarter and 9.29% year-to-date.

At quarter-end, the portfolio was invested in 87 active events, with 72% of the portfolio in Americas-based deals, 16% in Europe/Middle East/Africa (EMEA), and 4% in Asia-Pacific (APAC) transactions.

MARKET PERSPECTIVE

The market's tone was mixed during Q3, with optimism over economic growth combatting inflation concerns, supply chain bottlenecks, government shutdown fears, and regulatory pressure on large technology firms. While the overall market experienced muted returns and occasional spikes in volatility, event-driven managers endured fairly significant volatility during the quarter – which marked the first meaningful stumbling block for event-driven strategies after an admirable run of consistent, positive returns since the onset of the COVID-19 pandemic in Q1 2020.

The weakness began at the tail end of Q2, after the US Department of Justice (DOJ) sued to block the merger of insurance brokers Willis Towers Watson and Aon – a deal that had already acquired necessary regulatory approvals in all jurisdictions but the US – in mid-June. At the time, the deal was one of the most widely held positions across event-driven portfolios, as it was a large, high-profile deal that most arbitrageurs believed had a strong likelihood of closing. In the ensuing weeks, arbitrageurs began assessing the merits of the DOJ's case, potential remedies for the companies, and the probabilities of various outcomes. Much of the merger arbitrage community came to the same conclusion we did: the companies had a strong case and would succeed in coming to an agreement with the DOJ or win in court. On July 26, however, the companies announced that they had mutually agreed to abandon their planned merger rather than proceed with litigation. This development sent shockwaves through the event-driven community, as losses in Willis Towers/Aon positions caused a cascading effect across the merger arbitrage universe, with forced de-risking amongst levered investors and further panicked selling not just in deals with heightened antitrust risk, but throughout the landscape, driving deal spreads wider.

While the elevated volatility in our space was kicked off by antitrust concerns and the failure of Willis Towers/Aon, it was further fueled by additional risks – one novel, and one longstanding. Regulatory reviews in China have been a thorn in the side of arbitrageurs for several years now, as they are notably opaque and the Chinese government has demonstrated a willingness to wield the process as a tool in diplomatic negotiations. Despite the election of a new presidential administration in the US, relations with China remain frosty, leading to spread volatility in a handful of deals requiring Chinese approvals that have been pending longer than expected. More recently, we witnessed attempts by a cohort of retail investors to influence the share prices of companies using their stock as currency for pending acquisitions. With short interest in these acquirers elevated

due to the hedges implemented by merger arbitrageurs, these retail investors believed the acquirers' shares were rangebound and saw an opportunity to attempt to create a short squeeze – which they had famously done in other companies, such as GameStop, earlier in the year. Although these efforts have been largely unsuccessful longer-term, they did lead to a further increase in volatility for arbitrageurs short-term. Lastly, periodic spikes in broader market volatility at multiple stages of the quarter caused a reassessment of risk across a broad array of investors – traditional long-only, event-driven, and other strategies – simultaneously, which in turn led to more uncertainty. Selling begat more selling, and spread volatility continued.

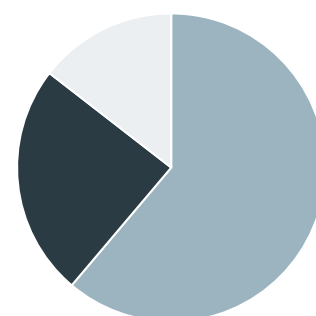
In times like this, we believe it is important to remember that while the risks are real – deals can fail – in general, these are the same risks that have always existed in the strategy. If an arbitrageur understands the fundamentals of a deal, develops conviction in a position, and – importantly – can stomach volatility that may emerge along the way, once a transaction closes (and the vast majority of transactions do indeed close) the spread will narrow to zero. Broader market moves do not influence a deal's likelihood of closing. Not only that, volatility can often present attractive entry points and opportunities to trade around spreads, potentially providing a boost to returns. With that in mind, while the portfolio's quarterly return was negative overall, on a monthly basis the negative performance was limited to July. Amidst the volatility we capitalized on opportunities to trade around spreads and increase exposure to our highest conviction positions, which benefited the portfolio as the arbitrage universe began to steady itself and spreads narrowed over the final two months of Q3. The spread environment began to recover after arbitrageurs were encouraged by the successful completion of a few high-profile transactions, most notably the acquisition of Maxim Integrated by Analog Devices (which required approval in China) and the acquisition of Slack by salesforce.com (which was feared to be a target of the Biden administration's mistrust of consolidation amongst "big tech" companies). While we believe we are still in a phase of spread adjustment, current spreads remain attractive. We are well aware of the prevailing risks in this environment, but we have decades of experience navigating changing regulatory landscapes. We welcome volatility, deal flow remains plentiful, and as deals continue to close, capital will be freed up and can be put back to work at favorable rates of return. All told, we believe the final months of the year could be opportune for the strategy.

TRAILING RETURNS (ARBFX) AS OF 9/30/21

1-Year	4.42%
5-Year	3.33%
10-Year	2.52%

Performance greater than one year is annualized.

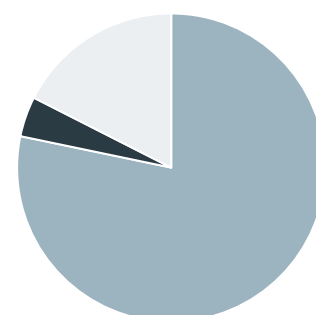
DEAL CONSIDERATION AS OF 9/30/21



- Cash (52%)
- Stock (21%)
- Combo (12%)

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

GEOGRAPHIC EXPOSURE AS OF 9/30/21



- Americas (72%)
- Asia Pacific (4%)
- Europe/Middle East/Africa (16%)

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

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, visit <http://arbitragefunds.com> or call (800) 295-4485. Returns shown above include the reinvestment of all dividends and capital gains. Total Annual Fund Operating Expense for ARBFX is 1.49%. Total Annual Fund Operating Expense excluding the effect of interest, dividends on short positions, and acquired fund fees and expenses for ARBFX is 1.28%.

TOP CONTRIBUTORS

Five9 Inc / Zoom Video Communications Inc — In July 2021, Five9 – a US-based provider of cloud-based contact center software – agreed to be acquired by Zoom Video Communications, the pandemic darling and a purveyor of cloud-based video conferencing software, for \$15.7 billion in stock. After a disappointing earnings report during the quarter, Zoom's shares – and thus the deal value – traded down nearly 30%. Arbitrageurs with a hedged position, however, were not only unscathed, but benefited, as rather than widening, the deal spread narrowed and eventually began trading negative, based on expectations that Five9 shareholders would agitate for a bump in terms to make up for the drop in deal value. While the companies did return to the negotiating table, they were unable to come to terms before the shareholder vote and the transaction was officially terminated the night of September 30, after it failed to receive the requisite support from Five9 shareholders.

Maxim Integrated Products Inc / Analog Devices Inc — In July 2020, integrated circuits manufacturer Analog Devices agreed to acquire Maxim Integrated Products, a developer of semiconductors specializing in automotive and 5G applications, in an all-stock deal worth \$21.2 billion. This deal experienced volatility in the spread based on fears it would not receive required regulatory approval in China – a process that has become increasingly opaque. These fears proved unfounded, however, when approval was received and the deal closed successfully in August 2021, leading to gains for the fund.

Slack Technologies Inc / salesforce.com Inc — In November 2020, salesforce.com – a US-based provider of customer relationship management software-as-a-service – reached an agreement to acquire Slack Technologies – a US based provider of collaboration and messaging software – for \$28.3 billion in cash and stock. Despite fears the new Democratic administration might attempt to block this transaction as part of a crackdown on consolidation amongst large tech companies, the deal closed successfully in July 2021, leading to gains for the fund.

TOP DETRACTORS

Willis Towers Watson PLC / Aon PLC — In March 2020, Willis Towers Watson, a UK-based provider of insurance brokerage services, agreed to be acquired by Aon, a US-based peer, for \$30.3 billion in stock. The companies had already agreed to remedies with competition regulators in all required jurisdictions but one – the United States – when, following a second request from US regulators, the DOJ sued to block the merger in June 2021. The DOJ raised antitrust concerns in five covered markets. The companies proposed additional remedies to cover three of the five business lines, with an additional divestiture potentially in play to address a fourth. We believed the companies would go to trial to litigate concerns around the fifth market, in an attempt to define it less broadly, however, in July, they jointly announced their intent to abandon the planned merger rather than go to court to defend against the attempted block by the DOJ. Ultimately, we believe Willis Towers Watson felt their business was being hindered by the lengthy duration of the deal and the company did not want to wait any longer. Upon the official break, the spread on this position traded through what we believed to be fair value on a standalone basis as many event-driven investors sought to unwind their exposure at the same time. We opted to maintain our exposure and trade around our position rather than immediately exit, and while the position is still a detractor overall, we were able to take advantage of the dislocation and recover a meaningful portion of our initial losses as the shares rebounded and new investors – including a band of activists – emerged.

Magnachip Semiconductor Corp / Wise Road Capital — In March 2021, Magnachip Semiconductor – a South Korea-based designer and manufacturer of semiconductor products – announced it had entered into a definitive agreement to be acquired by Wise Road Capital – a China-based private equity firm – in an all-cash transaction worth \$1.4 billion. Despite both parties being based outside US borders and little to no domestic presence, the Committee on Foreign Investment in the United States (CFIUS) requested the parties file a notice concerning the merger and undergo a formal CFIUS review. In August 2021, CFIUS announced it had identified significant risks to US national security resulting from the proposed merger, sending the deal spread wider. In response, the companies asked CFIUS for permission to withdraw and resubmit their filing (a relatively uncommon move in the CFIUS process) in order to have an opportunity to mitigate the committee's concerns. Surprisingly, CFIUS granted the request, and has committed to completing its second review by the end of October. We are monitoring this situation closely.

Change Healthcare Inc / UnitedHealth Group Inc — In January 2021, Change Healthcare, a US-based medical software and technology provider, agreed to be acquired by OptumInsight, a subsidiary of UnitedHealth Group (which also owns the country's largest health insurer) providing medical information technology services, for \$8.8 billion in cash. During Q1, the transaction received a second request from the DOJ, thus extending the deal's timeline for regulatory review into early 2022. The DOJ's investigation was prompted, in part, by objections to the deal from the American Hospital Association, which claimed it could curtail competition. Subsequent volatility in the deal spread has led the position to be both a contributor and a detractor during various recent periods. We continue to maintain our exposure, although we are monitoring the situation closely.

GLOSSARY: 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. *Deal flow* refers to the level of announced M&A activity.

IMPORTANT INFORMATION

Investors should carefully consider the fund's investment objectives, risks, and charges and expenses before investing. To obtain a prospectus containing this and other important information, visit <http://arbitragefunds.com> or call (800) 295-4485. Read the prospectus carefully before investing.

RISKS: *Investments are subject to risk, including possible loss of principal. There can be no assurance that the fund will achieve its investment objectives. The fund uses investment techniques and strategies with risks that are different from the risks ordinarily associated with equity investments. Such risks include merger arbitrage risk (in that the proposed reorganizations in which the fund invests may be renegotiated or terminated, in which case the fund may realize losses); short sale risk (in that the fund will suffer a loss if it sells a security short and the value of the security rises rather than falls); concentration risk; high portfolio turnover risk (which may increase the fund's brokerage costs, which would reduce performance); foreign securities risk (in that the securities of foreign issuers may be less liquid and more volatile than securities of comparable US issuers, and may be subject to political uncertainty and currency fluctuations); market risk; sector risk; derivatives risk; LIBOR rate risk; hedging transaction risk; counterparty risk; swap risk; options risk; liquidity risk; active management risk; investment company and ETF risk; leverage risk; small and medium capitalization securities risk; currency risk; and temporary investment/cash management risk. Risks may increase volatility and may increase costs and lower performance.*

Arbitrage Fund top ten holdings as of September 30, 2021: Coherent Inc; Five9 Inc; IHS Markit Ltd; Kansas City Southern; Nuance Communications Inc; PPD Inc; Water Island Event-Driven Fund; Welbilt Inc; Willis Towers Watson PLC; Xilinx Inc. Top ten holdings represent 41.2% 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 US Aggregate Bond Index covers the US investment grade fixed rate bond market. The HFRI Merger Arbitrage Index includes funds which employ an investment process primarily focused on opportunities in equity and equity-related instruments of companies which are currently engaged in a corporate merger or acquisition transaction. Indexes are unmanaged and one cannot invest directly in an index. Indexes are shown for informational purposes only.

Commentary represents the manager's opinion and contains certain forward-looking statements which may be different than actual future results, is subject to change, and is under no obligation to be updated. Commentary should not be regarded as investment advice or a recommendation of any security or strategy.

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