

# **WESTCHESTER CAPITAL MANAGEMENT, LLC**

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This brochure provides information about the qualifications and business practices of Westchester Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (914) 741-5600 or [operations@mergerfund.com](mailto:operations@mergerfund.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration as an investment adviser does not imply a certain level of skill or training.

Additional information about Westchester Capital Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2 – MATERIAL CHANGES**

Since the last update of our brochure dated March 1, 2012, we have (i) revised the discussion regarding WCM's allocation procedures to reflect amendments made to those procedures, (ii) revised the discussion of WCM's methods of analysis, strategies and the risk of loss and (iii) made certain non-material changes.

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#### ITEM 4 - ADVISORY BUSINESS

Westchester Capital Management, LLC (“WCM”), 100 Summit Lake Drive, Valhalla, New York 10595, provides investment advice as:

- the investment adviser to The Merger Fund, a registered open-end investment company organized as a Massachusetts business trust (“TMF”);
- the investment adviser to The Merger Fund VL, a registered open-end investment company organized as a Delaware statutory trust which offers its shares only to insurance company separate accounts in connection with variable annuity contracts or variable life insurance policies issued by certain life insurance companies (“VL”);
- the sub-adviser to the Dunham Monthly Distribution Fund, a separate series of shares of the Dunham Funds, a registered investment company (“Dunham”); and
- the adviser to the MLIS Westchester Merger Arbitrage UCITS Fund, a sub-fund of Merrill Lynch Investment Solutions, an umbrella investment company with variable share capital incorporated in the Grand Duchy of Luxembourg (the “UCITS Fund”).

TMF, VL, Dunham and the UCITS Fund are collectively referred to as the “Funds.” Each of the Funds engage in merger arbitrage. Merger arbitrage is an investment approach designed to profit from the successful completion of proposed mergers, takeovers, tender offers, leveraged buyouts, liquidations and other types of corporate reorganizations. The Funds may pursue other investment strategies. A summary of each Fund’s principal investment strategies is included in its offering documents.

WCM (along with its predecessor firm) has been an established manager in the merger arbitrage space for over 25 years. WCM has been an investment adviser registered with the Securities and Exchange Commission since 2010 and its predecessor firm was registered in 1980.

Roy Behren, as Manager of RDBWCM Holdings, LLC, Michael T. Shannon, as Manager of MTSWCM Holdings, LLC, and LPC Westchester GP, LLC, as general partner of LPC Westchester, LP, are WCM’s principal owners.

WCM tailors its advisory services to the specific investment objectives, policies and restrictions, if any, of each Fund as set forth in the relevant prospectus, prospectus supplement, statement of additional information, investment advisory contract and other governing documents pertaining to each Fund (collectively, the “Fund Documents”). Investment advice is provided in respect of each Fund, and not individually to investors in the Funds. Each Fund is subject to the investment restrictions described, if applicable, in its Fund Documents.

In addition, WCM is an affiliate of Green & Smith Investment Management L.L.C., an investment adviser (“G&S”). G&S serves as the general partner of Hudson Valley Partners, L.P., a Delaware limited partnership (“HVP”), investment adviser to The Merger Fund Ltd., a

Cayman Islands exempt company (“LTD”), and the manager of GS Master Trust, a Bermuda trust (the “Master Fund”), a master-feeder structure in which HVP and LTD comprise the feeder funds to the Master Fund.

As of December 31, 2012, WCM managed approximately \$4,650,000,000 in client assets on a discretionary basis and did not manage any assets on a non-discretionary basis.

## **ITEM 5 - FEES AND COMPENSATION**

WCM is the investment adviser to TMF pursuant to an investment advisory contract (the “TMF Contract”) dated January 1, 2011. The TMF Contract provides that WCM receives an annual management fee of 1.0% of TMF’s average daily net assets for the most recent fiscal year. This fee is accrued daily and payable monthly. WCM has entered into an agreement with TMF whereby WCM has agreed to reduce its advisory fee through December 31, 2013 so that the advisory fee will be: (i) 1.0% on an annualized basis of the average daily net assets of TMF on net assets below \$1.5 billion; (ii) 0.9% on an annualized basis of the average daily net assets of TMF on net assets between \$1.5 billion and \$2.0 billion; (iii) 0.8% on an annualized basis of the average daily net assets of TMF on net assets between \$2.0 billion and \$5.0 billion and (iv) 0.75% on an annualized basis of the average daily net assets of TMF on net assets over \$5.0 billion.

WCM is the investment adviser to VL pursuant to an investment advisory contract (the “VL Contract”) dated January 1, 2011. The VL Contract provides that VL pays WCM an annual management fee of 1.25% of the net asset value of VL. This fee is accrued daily and paid monthly. WCM has contractually agreed to reimburse expenses of VL and/or waive fees due to WCM through December 31, 2013 in order to ensure that total operating expenses of VL, excluding brokerage commissions, short dividends, interest expense, taxes, acquired fund fees and expenses and extraordinary expenses, on an annual basis do not exceed 1.40%. WCM may recapture some or all of the amounts it reimburses or waives in respect of VL in the three years following the year in which the fees were reimbursed or waived subject to the expense agreement in place at the time of the waiver/reimbursement.

WCM is sub-adviser to Dunham pursuant to a Sub-Advisory Agreement, dated as of December 6, 2010, and effective December 31, 2010, among Dunham & Associates Investment Counsel, Inc., the Dunham Funds and WCM (the “Dunham Contract”). The Dunham Contract provides that WCM’s fee is a performance-based fulcrum fee composed of a base fee of 0.75% and a performance adjustment of +/-0.50% depending on WCM’s performance over a rolling 12-month period measured against a designated benchmark. No adjustment is made to WCM’s fees if the performance falls within the “null zone” of plus or minus 0.15% versus the benchmark. The total fulcrum fee (base fee plus or minus performance fee) is paid monthly. Effective April 1, 2013, WCM has agreed through December 31, 2014 to contractually waive a portion of the fee payable to it pursuant to the Dunham Contract such that the total fulcrum fee (base fee plus or minus performance fee), on an annual basis, does not exceed 1.05% of the Dunham Fund’s aggregate average daily net assets of certain classes of the Dunham Fund.

WCM is adviser to the UCITS Fund pursuant to an Investment Management Agreement between Merrill Lynch Investment Solutions and WCM (the “UCITS Fund Contract”). The

UCITS Fund Contract provides that WCM is paid a management fee of up to 0.90% per annum of the net asset value of each class of shares, prior to reduction for any accrued performance fee, and a performance fee of up to 20% of new net appreciation calculated by reference to each share class's high water mark. The investment management fee is payable monthly in arrears within five business days of the end of each calendar month.

WCM's fees are negotiated and fixed at the time that each Fund's investment advisory contract is entered into.

Each Fund's daily NAV reflects the deduction of accrued management fees and, in the case of Dunham and the UCITS Fund, performance fees.

TMF, VL and Dunham pay other expenses related to their respective operations, including custodial fees; brokerage commissions; expenses relating to the issuance, sale, underwriting, distribution, redemption or repurchase of shares; legal and accounting fees; expenses for servicing shareholders accounts; insurance premiums for fidelity and other coverage; and expenses of computing the net asset value of the shares. See *Item 12 – Brokerage Practices* below.

The UCITS Fund pays all taxes owed on its assets and income; bank fees, possible registration and brokerage fees for transactions in securities making up the company's portfolio, as well as fees on transfers referring to redemptions of shares; the cost of extraordinary measures, in particular experts' or counsels' fees or lawsuits necessary to protect shareholders' interests; and expenses relating to the sponsor's promotion and distribution of shares in the company and any of its sub-funds, including but not limited to the printing and distribution of sales literature and advertising and promotional costs.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As discussed above under *Item 5 – Fees and Compensation*, WCM charges performance-based fees in the case of Dunham and the UCITS Fund.

WCM is an affiliate of G&S, an investment adviser since 1996, which provides investment advice as the general partner of HVP, investment adviser to LTD, and the manager of GS Master Trust, a Bermuda trust (the "Master Fund"), a master-feeder structure in which HVP and LTD comprise the feeder funds to the Master Fund. The Master Fund engages in merger arbitrage. G&S does not charge any fee to the Master Fund for its services. Instead fees are paid at the feeder fund level as described below.

G&S charges HVP a 1.0% management fee which is accrued and calculated monthly and payable in arrears as of the last day of each calendar quarter. In addition, G&S is entitled to an incentive allocation, which is an amount, paid annually, equal to 20% of the net profits of HVP, if any, during each fiscal year (subject to recoupment of each applicable limited partner's prior cumulative net loss).

G&S charges LTD a management fee, which is payable quarterly in arrears and is accrued and calculated monthly (as of the last business day of each month) at an annual rate of

1.0% of the net asset value of LTD calculated as set forth in its fund documents. In addition, G&S is entitled to an incentive fee, which is an amount, accrued monthly and paid annually, equal to 20% of the net profits of LTD, if any, during each fiscal year (subject to recoupment of each applicable shareholder's prior cumulative net loss).

Roy Behren, Co-Manager, Co-President and Treasurer of WCM, is Co-Manager, Co-President, Treasurer and a member of G&S, Co-President, Treasurer and a Trustee of TMF and Co-President and Treasurer of VL. Michael T. Shannon, Co-Manager and Co-President of WCM, is Co-Manager, Co-President and a member of G&S, Co-President of TMF and Co-President and a Trustee of VL.

The fact that WCM's and G&S's portfolio managers manage both accounts that are charged a performance-based fee and accounts that are charged an asset-based fee creates the potential for a conflict of interest, since receipt of a portion of any profits realized by WCM-advised and G&S-advised accounts that are charged a performance-based fee could, in theory, create an incentive to favor such accounts (*e.g.*, by allocating to them the most favorable investment opportunities or by allocating more resources and time to managing those accounts). However, WCM believes that any conflicts of interest are mitigated, at least in part, for the following reasons: (i) the Funds and the Master Fund all engage in merger arbitrage and are managed in a similar fashion; (ii) WCM and G&S follow written allocation procedures designed to allocate securities purchases and sales among the Funds and the Master Fund in a fair and equitable manner over time; and (iii) all allocations and fair-value pricing reports are subject to review by WCM's and G&S's Chief Compliance Officer.

## **ITEM 7 - TYPES OF CLIENTS**

WCM provides investment advice to registered investment companies and a UCITS sub-fund.

TMF's minimum initial investment requirement for individuals, IRAs, corporations, partnerships or trusts is \$2,000. However, WCM, in its sole discretion, may waive the minimum initial investment amount on a case-by-case basis. There is no minimum investment requirement for qualified retirement plans or investments that are made through omnibus accounts. There is no minimum investment requirement for subsequent investments.

Shares of VL are not sold to the general public. VL shares are offered for purchase by separate accounts to serve as an investment medium for variable annuity and variable life insurance contracts issued by participating life insurance companies. Purchase and redemption orders are placed only by participating insurance companies. The participating insurance companies that issued the contracts are responsible for investing in VL according to the investment options chosen by the investors in the contracts. Investors in the contracts should consult their contract prospectus for additional information.

For Dunham's Class A shares, the initial minimum investment amount for regular accounts is \$5,000, and for tax-deferred accounts is \$2,000. The minimum subsequent investment is \$100. For Dunham's Class C shares, the minimum initial investment is \$5,000 and for tax-deferred and certain tax-deferred accounts is \$2,000. The minimum subsequent

investment is \$100. For Dunham's Class N shares, the minimum initial investment is \$100,000 for taxable accounts and \$50,000 for tax-deferred accounts. There is no minimum subsequent investment amount for Class N shares.

For the UCITS Sub-Fund, the initial subscription price per share is €100, \$100 or £100, depending on the share class. Each investor in the UCITS Fund must not be a U.S. Person, as defined in Regulation S under the Securities Act of 1933 or in regulations adopted under the Commodity Exchange Act, other than a Permitted U.S. Person, which means an entity that was not formed for the purpose of acquiring shares and that is controlled by Permitted US Persons, or an entity that is owned solely by Permitted US Persons. No investors that are benefit plan investors are permitted to subscribe for, or otherwise own, shares of the UCITS Sub-Fund.

## **ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

The Funds may invest a substantial portion of their total assets in companies which are involved in publicly announced mergers, takeovers, tender offers, leveraged buyouts, spin-offs, liquidations and other corporate reorganizations. Merger arbitrage is an investment approach generally designed to profit from the successful completion of such transactions. Although a variety of strategies may be employed depending upon the nature of the reorganizations selected for investment, the most common merger-arbitrage activity involves purchasing the shares of an announced acquisition target at a discount to their expected value upon completion of the acquisition. The size of this discount, known as the arbitrage "spread," generally determines a Fund's potential profit on any given investment.

In conjunction with investment in an acquisition target or other investment, the Funds may employ a variety of hedging strategies to protect against issuer-related risk or other risks, including selling short the securities of the company that proposes to acquire the acquisition target and/or the purchase and sale of put and call options. The Funds may enter into derivative transactions and other instruments of any kind for hedging purposes, duration or volatility management purposes, or otherwise to gain, or reduce, long or short exposure to one or more asset classes or issuers. For example, WCM may seek to hedge a Fund's portfolio against a decline in the value of its portfolio securities or a decline in the market generally by purchasing put options.

The Funds may engage in active trading and may invest a portion of their assets to seek short-term capital appreciation.

Some of the Funds invest in fixed and floating rate income investments of any credit quality or maturity, including below investment grade bonds (commonly known as "junk bonds"), bank debt and preferred stock and option writing strategies, including, for example, where that Fund writes call options on its portfolio securities or a market index that is representative of its portfolio with the expectation of generating additional income.

Each Fund's Fund Documents include a summary of the Fund's principal investment strategies.



Investing in securities involves risk of loss that clients should be prepared to bear. Many factors may affect the Funds' net asset value and/or performance, including the following:

*Merger and Event-Driven Risk* – Merger-arbitrage and event-driven investing involves the risk that WCM's evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue or other event, will prove incorrect and that a Fund's return on the investment will be negative. Even if WCM's judgment regarding the likelihood of a specific outcome proves correct, the expected event may be delayed or completed on terms other than those originally proposed, which may cause a Fund to lose money or fail to achieve a desired rate of return. Each Fund expects to employ strategies that are not designed to benefit from general market appreciation or improved economic conditions in the global economy. Accordingly, a Fund can be expected to underperform the markets under certain market conditions, such as periods when there is rapid appreciation in the markets.

*Hedging Transactions* – The success of a Fund's hedging strategy will be subject to WCM's ability to assess correctly the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Hedging transactions involve the risk of imperfect correlation. Imperfect correlation may prevent a Fund from achieving the intended hedge or expose a Fund to risk of loss. Hedging transactions also limit the opportunity for gain if the value of a hedged portfolio position should increase.

*Management Risk* – Each Fund is subject to management risk because it is an actively managed investment portfolio. WCM will apply its investment techniques and risk analyses in making investment decisions for a Fund, but there is no guarantee that its decisions will produce the intended result or that its evaluation of the likelihood that a specific merger or reorganization will be completed as expected will prove correct.

*Portfolio Turnover Risk* – The frequency of a Fund's transactions will vary from year to year, though merger arbitrage portfolios may have higher turnover rates than portfolios of typical long-only funds. Increased portfolio turnover may result in higher brokerage commissions, dealer mark-ups and other transaction costs. The higher costs associated with increased portfolio turnover may offset gains in a Fund's performance. The sale of portfolio securities associated with portfolio turnover may also result in the recognition of capital gain, which will be taxable to shareholders (in the case of short-term capital gain, at ordinary income rates) when distributed to shareholders.

*Derivatives Risk* – Financial derivatives, such as options, swaps and futures contracts, may not produce the desired investment results because they are not perfect substitutes for the underlying securities, indices or currencies from which they are derived. Derivatives may also create leverage which will amplify the effect of the performance of these instruments on a Fund and may produce significant losses.

*Foreign Investing* – Investments in foreign countries may entail political, cultural, regulatory, legal and tax risks different from those associated with comparable transactions in the United States. Such investments are subject to currency risk and country-specific risks such as political, diplomatic, regional conflicts, terrorism, war, social and economic instability and policies that

may have the effect of decreasing the value of foreign securities. Foreign countries may be subject to different trading settlement practices, less government supervision, less publicly available information, limited trading markets and greater volatility than U.S. investments.

*Leveraging Risk* – The use of leverage, such as borrowing money to purchase securities, engaging in reverse repurchase agreements, lending portfolio securities and engaging in forward commitment transactions, will cause the value of a Fund’s shares to be more volatile.

*Short Selling Risk* – If the price of a security sold short increases between the time of the short sale and the time a Fund covers its short position, a Fund will incur a loss. The amount of a potential loss on an uncovered short sale transaction is theoretically unlimited. The Funds are required to deposit collateral in connection with such short sales and have to pay certain fees to borrow particular securities.

*Market Risk* – Investment markets can be volatile. In other words, the prices of investments can fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. The Funds’ investments may decline in value if markets perform poorly.

*Call or Redemption Risk* – If interest rates decline, issuers of debt securities may exercise redemption or call provisions. This may force a Fund to reinvest redemption or call proceeds in securities with lower yields, which may reduce Fund performance.

*Credit Risk* – Issuers of debt securities may suffer from a reduced ability to repay their interest and principal obligations. They may even default on interest and/or principal payments due to a Fund. An increase in credit risk or a default will cause the value of a Fund’s fixed and floating rate income securities to decline. Issuers with lower credit quality are more susceptible to economic or industry downturns and are more likely to default.

*Interest Rate Risk* – In general, the price of a debt security falls when interest rates rise. Debt securities have varying levels of sensitivity to changes in interest rates. The values of securities with longer maturities tend to be more sensitive to interest rate changes.

*Liquidity Risk* – Some securities may have few market-makers and low trading volume, which tend to increase transaction costs and may make it impossible for a Fund to dispose of a security position at all or at a price which WCM believes represents current or fair market value.

*Lower-Rated Securities Risk* – Securities rated below investment-grade (and unrated securities of comparable credit quality), commonly referred to as “high-yield” or “junk” bonds, are speculative investments that generally have more credit risk than higher-rated securities. Companies issuing high-yield fixed-income securities are not as strong financially as those issuing securities with higher credit ratings and are more likely to encounter financial difficulties. Lower rated issuers are more likely to default and their securities could become worthless.

*Purchasing Put Options* – When a Fund purchases put options, it risks the loss of the cash paid for the options if the options expire unexercised.

*Selling (Writing) Covered Call Options Risk* – When a Fund sells covered call options, it foregoes the opportunity to benefit from an increase in the value of the underlying stock above the exercise price, but it continues to bear the risk of a decline in the value of the underlying stock.

*Small and Medium Capitalization Risk* – A Fund’s investments in smaller and medium-sized companies carry more risks than investments in larger companies. Companies with small and medium size market capitalization often have narrower markets, fewer products or services to offer and more limited managerial and financial resources than do larger, more established companies.

*Tax Consequence Risk* – A Fund may generate premiums from its sale of call options. Any profits from the sale of call options are typically distributed to shareholders of a Fund and taxable as short-term capital gains for federal and state income tax purposes.

## **ITEM 9 - DISCIPLINARY INFORMATION**

We are required to disclose all material facts regarding legal or disciplinary events that would be material to your evaluation of WCM’s advisory business or the integrity of WCM’s management. WCM does not have any such legal or disciplinary events to report.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

As described above under *Item 4 – Advisory Business* and *Item 7 – Types of Clients*, WCM provides investment advice to registered investment companies and a UCITS sub-fund.

As described above under *Item 6 – Performance-based Fees and Side-by-Side Management*, WCM is an affiliate of G&S, an investment adviser which provides investment advice as the general partner of HVP, serves as the investment adviser to LTD, and serves as the manager of the Master Fund, a master-feeder structure in which HVP and LTD comprise the feeder funds.

The Co-Managers of WCM are officers and/or trustees of WCM, TMF and VL and also manage the portfolios of the Master Fund, HVP and LTD, which creates the potential for a conflict of interest. See *Item 6 – Performance-based Fees and Side-by-Side Management* and *Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### *Code of Ethics*

WCM has adopted a Code of Ethics and will provide a copy of the Code of Ethics to any client or prospective client upon request. The Code of Ethics is designed to reinforce fiduciary principles that govern the conduct of WCM and its personnel and is designed to comply with

Rule 204A-1 under the Investment Advisers Act of 1940. The Code of Ethics covers a wide range of issues, including general fiduciary principles, conflicts of interest, insider trading, personal securities transactions, gifts, confidentiality, certification of compliance and sanctions.

WCM's access persons are permitted to purchase or sell publicly traded securities which may also be owned or recommended to be owned or sold by the Funds and the Master Fund, subject, in most cases, to pre-clearance requirements and certain other restrictions set forth in the Code of Ethics. All persons deemed to be access persons of WCM are subject to the provisions of the Code of Ethics regarding personal securities transactions and trading while in the possession of inside information and may only enter into such transactions subject to the Code of Ethics. WCM's access persons also must report their personal securities transactions periodically, which reports are reviewed for trading inconsistent with WCM's Code of Ethics by WCM's CCO or his designee. The Code of Ethics is designed to mitigate conflicts of interest and prevent violations of law by persons subject to its provisions.

#### Participation in Client Transactions

WCM and its related entities may engage in a broad range of activities, including investment activities for the account of other investment funds. In the ordinary course of conducting WCM's activities, the interests of a Fund may conflict with the interests of WCM, other Funds or their respective affiliates. Certain of these conflicts of interest, as well as a description of how WCM addresses such conflicts of interest, can be found below.

#### *Conflicts*

The material conflicts of interest encountered by WCM include those discussed below, although the discussion below does not necessarily describe all of the conflicts that may be faced by WCM. Certain other conflicts may be disclosed throughout this brochure and the brochure should be read in its entirety for other conflicts.

#### *Allocation of Investment Opportunities Among Funds*

In connection with its investment activities, WCM may encounter situations in which it must determine how to allocate investment opportunities among various Funds and other persons, which may include, but are not limited to, the Funds and individuals and entities that are also investors in one or more Funds or other funds affiliated with WCM ("Adviser Investors") and/or individuals and entities that are not investors in any Funds or affiliated funds ("Third Parties"). In recognition of its fiduciary duties, it is the policy of WCM to allocate such investment opportunities on an equitable basis and in accordance with the written policies and procedures relating to the allocation of investment opportunities WCM has adopted. Typically, in order to address potential conflicts of interest associated with the aggregation of trades for multiple Funds or accounts, WCM, in conjunction with G&S, where applicable, will determine how an aggregated trade will be allocated among eligible Funds and/or accounts either (i) before or (ii) at the time the trade order is entered, where practicable. The pre-allocation of trades may not be practical or possible in a large number of transactions. In those situations, WCM and G&S, will typically allocate an investment opportunity using a default methodology, which may include allocating the investment opportunity pro rata among eligible Funds and/or accounts based on

either each eligible Fund's or account's (i) total assets or (ii) existing position in the relevant security (or securities, as the case may be).

There can be no assurances that an investment opportunity that comes to the attention of WCM and G&S will not be allocated wholly or primarily to certain funds advised or sub-advised by them, with the Funds being unable to participate in such investment opportunity or participating only on a limited basis. If, in the discretion of WCM, the Funds should not participate in a particular investment opportunity for tax, regulatory or other reasons, such investment opportunity will not be allocated to such Funds.

#### *Other Activities*

WCM and its principals, owners or employees devote as much of their time to the activities of each Fund as WCM deems necessary and appropriate. Such persons are not restricted from forming additional investment funds, from entering into other investment advisory relationships, or from engaging in other business activities, even though such activities may be in competition with the Funds. These activities could be viewed as creating a conflict of interest in that the time and effort of such persons will not be devoted exclusively to the business of one particular Fund, or to the Funds collectively.

WCM and its principals, owners or employees may engage in investment activities for other client accounts, for their own accounts and for family members and others and may make personal investments in other investment funds, some of which have investment strategies similar to that of the Funds, or that may participate with the Funds in certain private or special situation investment opportunities. *See discussion under "Code of Ethics" and "Allocation of Investment Opportunities Among Funds."*

## **ITEM 12 - BROKERAGE PRACTICES**

In selecting a broker-dealer to execute any given transaction, WCM will seek "best execution" of the transaction except to the extent it may be permitted to pay higher brokerage commissions in exchange for brokerage and research services (as discussed below).

In determining whether a particular broker or dealer is likely to provide best execution in a particular transaction, WCM may take a number of factors into consideration, including but not limited to: the best net price available; the reliability, integrity and financial condition of the broker-dealer; the size and complexity of the order; the broker-dealer's order flow in the security to be traded; the broker-dealer's willingness to commit capital to facilitate the transaction; and the value of the expected contribution of the broker-dealer to the investment performance of the Funds on a continuing basis.

WCM and G&S may receive research or brokerage services other than execution from a broker-dealer or third party in connection with client securities transactions. These are known as "soft dollar" benefits. WCM may cause the Funds to pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits if WCM determines in good faith that such commissions are reasonable in relation to the value of brokerage, research and other

services provided, either in terms of the particular transaction or WCM's overall responsibilities for accounts over which WCM exercises investment discretion.

When WCM uses client brokerage commissions to obtain research or other products or services, WCM receives a benefit because it does not have to produce or pay for the research, products or services. WCM may have an incentive to select or recommend a broker-dealer based on WCM's interest in receiving the research or other products or services, rather than on WCM's clients' interest in receiving most favorable execution. WCM typically advises Funds that pursue merger arbitrage investment strategies and often aggregate their trading activities. Accordingly, soft dollar benefits often are useful in managing all or a number of WCM-accounts. It is, therefore, typically not practicable for WCM to allocate soft dollar benefits proportionately to the soft dollar credits each account generates. Some of the services received as a result of Fund transactions may benefit accounts other than the Fund that generated the credits.

Some research or other products or services received from a broker-dealer or third party may be only partially eligible for soft dollar payments (a "mixed-use" product or service). In these cases, WCM makes a reasonable allocation of the cost between that portion which is eligible and that portion which is ineligible. The eligible portion may be paid for with soft dollars and the ineligible portion will be paid for with WCM's own funds (hard dollars). This allocation decision may present a conflict of interest to WCM because it is deciding how much it will pay out of its own pocket.

Additionally, in allocating portfolio brokerage, WCM may select broker-dealers who also provide brokerage, research and other services that may be useful to other accounts over which WCM or G&S exercises investment discretion. WCM may have an incentive to select or recommend a broker-dealer based on WCM's interest in receiving client referrals, rather than on WCM's clients' interest in receiving most favorable execution.

WCM's Chief Compliance Officer, or his designee, meets periodically with Fund management personnel to review the performance of each selected broker-dealer, the services being provided by the broker-dealer and the fees being paid for those services to evaluate whether WCM is satisfying its best execution obligations.

During WCM's last fiscal year, WCM acquired research services permitted under Section 28(e) of the Securities Exchange Act of 1934 with client brokerage commissions.

When a Fund and the other accounts over which WCM or G&S exercises investment discretion are engaged in the simultaneous purchase or sale of the same securities, WCM and G&S may aggregate the orders. WCM believes that such bunching generally facilitates the timely and efficient execution of trades. Moreover, WCM may be able to execute bunched orders at more favorable prices than would be realized when effecting a number of individual, sequential purchase or sale transactions. As a result of the practice of bunching orders, however, WCM and G&S often must allocate purchases and sales of securities among different client accounts following the execution of a bunched purchase or sale order. WCM maintains a policy of allocating the executions in a manner which seeks to treat all the accounts involved fairly and equitably over time. *See Item-11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Allocations of Investment Opportunities Among Funds above.*

The Funds are permitted to invest in U.S. equity securities that are offered in initial public offerings (also referred to as “new issue” securities). The Master Fund does not invest in new issue securities. When an initial public offering is brought to the market, availability may be limited and the Funds may not be able to buy any shares at the offering price.

### **ITEM 13 - REVIEW OF ACCOUNTS**

Merger arbitrage is a highly focused, dynamic type of investing which requires analysis of events surrounding a pending corporate reorganization. Arbitrage positions generally are reviewed on a daily basis and the holdings of WCM’s clients are adjusted accordingly. These accounts are managed by Roy Behren, Co-Manager, Co-President and Treasurer of WCM, and Michael T. Shannon, Co-Manager and Co-President of WCM.

As described in each Fund’s prospectus, the Funds are required to provide written semi-annual and annual reports to their shareholders. Audited financial statements are provided on an annual basis.

In addition, WCM may provide written monthly fact sheets and quarterly letters, which may include a report of current positions, valuations, prices and transactions; commentary; a statement of total assets; and performance.

### **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

While not a client solicitation arrangement, WCM may from time to time compensate third-party placement agents or consultants for recommending prospective non-U.S. investors for the UCITS Fund.

### **ITEM 15 - CUSTODY**

WCM does not have custody of client funds or securities.

### **ITEM 16 - INVESTMENT DISCRETION**

WCM has discretionary authority to manage securities accounts on behalf of clients. Each Fund’s Fund Documents include a description of certain investment limitations applicable to the Fund. Prior to assuming discretion in managing clients’ assets, WCM enters into an investment management agreement or other agreement that explains the scope of WCM’s discretionary authority.

## **ITEM 17 - VOTING CLIENT SECURITIES**

WCM has authority to vote client securities. WCM has adopted Proxy and Corporate-Action Voting Policies and Procedures that govern the voting of proxies for securities held by the Funds. Clients cannot direct WCM how to vote in a particular solicitation. WCM has full authority to vote proxies or act with respect to other shareholder actions on behalf of the Funds. WCM's primary consideration in voting proxies is the best interest of the Funds. The proxy-voting procedures address the resolution of potential conflicts of interest and circumstances under which WCM will limit its role in voting proxies. Where a proxy proposal raises a material conflict between WCM's interests and a Fund's interests, WCM will resolve the conflict by following the policy guidelines.

The proxy-voting guidelines describe WCM's general position on proposals. WCM will generally vote against any management proposal that clearly has the effect of restricting the ability of shareholders to realize the full potential value of their investment. WCM will typically vote in favor of routine proposals that do not change the structure, bylaws or operations of the corporation to the detriment of the shareholders. WCM will review certain issues on a case-by-case basis based on the financial interest of the Funds.

When securities are out on loan, they are transferred into the borrower's name and are voted by the borrower, in its discretion. However, if WCM has knowledge that an event will occur having a material effect on a Fund's investment in a loaned security, WCM will seek to have the loan called in time to vote the proxy or WCM will enter into an arrangement which ensures that the proxies for such material events may be voted as WCM believes is in the Funds' best interests.

Information regarding how WCM voted proxies and a copy of WCM's Proxy and Corporate-Action Voting Policies and Procedures are available upon request by calling (914) 741-5600 or sending an e-mail to [operations@mergerfund.com](mailto:operations@mergerfund.com).

## **ITEM 18 - FINANCIAL INFORMATION**

WCM does not require or solicit prepayment of fees six months or more in advance and no present financial condition is reasonably likely to impair WCM's ability to meet contractual commitments to clients.