



# Water Island Capital

## Part 2A of Form ADV: Firm Brochure

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This brochure provides information about the qualifications and business practices of Water Island Capital, LLC. If you have any questions about the contents of this brochure, please contact us at [compliance@wicfunds.com](mailto:compliance@wicfunds.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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

Water Island Capital, LLC is registered with the SEC as an investment adviser. SEC registration does not constitute an endorsement of the firm by the Commission nor does it indicate that the adviser has attained a particular level of skill or ability.

## **Item 2 - Material Changes**

This Part 2A of Form ADV (this “Brochure”) was initially filed in March 2016. Accordingly, there are no material changes to this Brochure to report.

In the future, this Item 2 will contain a summary of any material changes since the last update of our Brochure.

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## Item 4 – Advisory Business

Water Island Capital, LLC (“Water Island” or the “Adviser”) is an investment advisory firm with its principal place of business in New York City. The Adviser was founded by John Orrico in 2000 and has been registered with the SEC since that time. We are an independent, employee-owned firm that specializes in event driven investing strategies including strategies focused on merger arbitrage, equity special situations, and credit opportunities. These strategies are available to prospective institutional and retail clients through public mutual funds, institutional separate accounts and private funds. Pursuant to their advisory agreements with Water Island, Clients may also impose reasonable restrictions on investments. The Adviser has been serving the institutional and retail investor communities for over 15 years with a commitment to adding alpha through rigorous fundamental research. John Orrico is the majority owner of the Adviser.

Water Island’s clients (our “Clients”) engage Water Island to manage their assets according to investment objectives and policies set forth in each Client’s respective offering documents and/or advisory agreements.

Water Island is the investment adviser to The Arbitrage Funds, a group of mutual funds registered under the Investment Company Act of 1940 (the “1940 Act”). The Arbitrage Funds currently offer four series: The Arbitrage Fund, The Arbitrage Event-Driven Fund, The Arbitrage Tactical Equity Fund and The Arbitrage Credit Opportunities Fund (each a “Fund” and collectively, the “Funds”). In addition, Water Island serves as a sub-adviser to other mutual funds managed by other investment advisers that are not affiliated with Water Island.

Water Island Capital U.K. Limited (“Water Island UK”) is a wholly owned subsidiary of the Adviser located in London, United Kingdom. Water Island UK is registered with the UK’s Financial Conduct Authority (“FCA”) and provides research and trading capabilities to the Adviser as it relates to European, Middle Eastern, and African markets.

Water Island Holdings, LLC is a special purpose vehicle which serves as the general partner to Water Island Global Master, LP, a Cayman Islands exempted limited partnership and as the manager of Water Island Global, LLC, a Delaware limited liability company that invests substantially all of its assets in Water Island Global Master, LP (collectively, “Water Island Global”).

Water Island does not participate in wrap fee programs.

As of January 31, 2016, Water Island managed \$2.759 billion in client assets on a net, discretionary basis. The Adviser does not manage any client accounts on a non-discretionary basis.

## Item 5 – Fees and Compensation

Water Island is the investment adviser to The Arbitrage Funds pursuant to an investment advisory agreement with each of The Arbitrage Funds (the “Agreements”). Under the terms of the Agreements, the Adviser may be reimbursed for certain expenses and receives advisory fees for managing The Arbitrage Funds, payable monthly, at an annual rate on the average daily net assets in accordance with the following schedule:

FUND	ADVISORY FEE
The Arbitrage Fund	<ul style="list-style-type: none"><li>• 1.25% on the first \$250 million</li><li>• 1.20% on The Arbitrage Fund’s next \$50 million</li><li>• 1.15% on The Arbitrage Fund’s next \$50 million</li><li>• 1.10% on The Arbitrage Fund’s next \$50 million</li><li>• 1.05% on The Arbitrage Fund’s next \$75 million</li><li>• 1.00% on The Arbitrage Fund’s average daily assets in excess of \$500 million</li></ul>
The Arbitrage Credit Opportunities Fund	1.00%
The Arbitrage Event-Driven Fund	1.25%
The Arbitrage Tactical Equity Fund	1.25%

Water Island is the sub-adviser to two unaffiliated registered investment companies pursuant to separate sub-advisory agreements. Pursuant to these sub-advisory agreements, Water Island may be reimbursed for certain expenses, and receives advisory fees calculated at the rates negotiated with each of the advisers to the sub-advised funds based on the average daily net assets of each such investment company.

Fees charged with respect to registered investment companies are subject to annual review and approval by such registered investment companies’ boards of directors. These fees and expenses are described in each registered investment company’s prospectus, and a Client or prospective investor in a registered investment company advised by Water Island should review the prospectus to fully understand the total amount of fees or expenses to be paid by such investor.

Water Island is the investment adviser to Water Island Global Master, LP, a Cayman Islands exempted limited partnership (the “Master Fund”) and to Water Island Global, LLC, a Delaware limited liability company that invests substantially all of its assets in the Master Fund (the “Feeder Fund”). The Master Fund and the Feeder Fund form a master-feeder event driven hedge fund. The Adviser receives a monthly management fee 0.167% (or 2.00% per annum) of

the net asset value of the Master Fund's assets. Additionally, Water Island Holdings, LLC, an affiliate of the Adviser that serves as the General Partner of the Master Fund and as the Manager of the Feeder Fund, is entitled to receive a performance allocation from the Master Fund at the end of each calendar year or upon an investor's withdrawal of all or a portion of his or her capital account. The performance allocation is calculated as 20% of the aggregate net appreciation over the relevant period.

Clients may also incur brokerage, custody, borrowing costs, administration, accounting, legal, and other miscellaneous or transaction costs. Please refer to Item 12 regarding Water Island's brokerage practices.

## **Item 6 – Performance-Based Fees and Side-by-Side Management**

As noted in Item 5 above, the Adviser may, from time to time, enter into performance fee arrangements with Clients that entitle Water Island or one of its affiliates to receive a percentage of the realized or unrealized profits attributable to the Client's account over a certain period of time. The Adviser may also choose to waive or reduce all or any portion of the management fees and performance fees with respect to any Client or investor subject to performance fees.

The Adviser recognizes that the presence of a performance fee may involve potential conflicts of interest that require compliance monitoring and controls. For example, performance fee arrangements may create an incentive to favor Clients paying such fees over those that do not, and may create an incentive to make investments that are riskier or more speculative than would be the case in the absence of performance-based compensation. In addition, performance fees received by Water Island and/or its affiliates can be based on both realized and unrealized gains and losses, subject to "high water mark" treatment. As a result, a performance fee earned and/or paid to the Adviser could be based in whole or in part on unrealized gains that Clients may never realize.

Water Island also recognizes that a variety of other conflicts may arise from managing multiple accounts on a side-by-side basis, including conflicts that may arise from the purchase or sale of similar securities for more than one Client, or from transactions between Clients. Accordingly, Water Island has implemented policies and procedures designed to address such conflicts, including policies and procedures to allocate securities among the various Clients in a fair and equitable manner over time. Please refer to Item 12 regarding order aggregation. The Chief Compliance Officer performs periodic reviews of allocations to help ensure equitable treatment in accordance with such policies.

## Item 7 – Types of Clients

Water Island is an independent, employee-owned registered investment adviser that specializes in event driven investing strategies including merger arbitrage, equity special situations, and credit opportunities. These strategies are available to investors through open-end mutual funds, institutional accounts and private funds.

Clients advised by Water Island may include corporations, foundations, endowments, pension plans, and investment companies, among others. Minimum account sizes vary by Client and strategy.

The requirements for investing in The Arbitrage Funds are set forth in The Arbitrage Funds' Prospectus and Statement of Additional Information, which can be accessed by visiting [www.arbitragefunds.com](http://www.arbitragefunds.com) or by calling (800) 295-4485. The offering materials for Water Island Global, LLC are only available to pre-qualified investors upon request. The requirements for investing in the sub-advised funds are set forth in their respective Prospectuses and Statements of Additional Information.

## Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

### Methods of Analysis

Water Island's investment philosophy is borne out of the Adviser's history of investment management in the "alternative" mutual fund space. A primary tenet of this philosophy is a belief that capital preservation in difficult markets serves as the most important litmus test for any strategy or product offering low-correlation or "alternative" strategies. This philosophy is the basis of our process, which can be described as a disciplined fundamental approach that values downside protection while seeking to identify compelling risk/reward opportunities available to us as we screen catalyst-driven corporate events.

*Event-driven investing seeks to exploit pricing inefficiencies that may occur before or after a corporate event, such as a bankruptcy, merger, acquisition, spin-off, or other corporate re-organization or event.*

*Merger Arbitrage:* Merger arbitrage is a highly specialized investment approach designed to profit from the successful completion of mergers, takeovers, tender offers, leveraged buyouts, spin-offs, liquidations and other corporate reorganizations. The most common merger arbitrage activity, and the approach the Adviser generally uses, involves purchasing the securities (either equity or debt) of an announced acquisition target company at a discount to their expected value upon completion of the acquisition. The Adviser may engage in selling securities short when the terms of a proposed acquisition call for the exchange of common stock and/or other securities. In such a case, the securities of the company to be acquired may be purchased and, at approximately the same time, an amount of the acquiring company's common stock and/or

other securities as per the terms of the transaction may be sold short. In pursuing merger arbitrage strategies in the manner described above, the Adviser aims to reduce or eliminate market risk.

The Adviser employs the use of derivatives, such as options, to hedge risks associated with certain investment positions when appropriate. Options may also be used to seek to dampen the risk on a particular transaction or event that would otherwise be too high on the risk spectrum for the Client account to participate. Additionally, in certain complex stock-for-stock deals involving price collars associated with the share price of the acquiring entity, the Fund may utilize options to seek to enhance the risk/reward profile of the deal.

*Equity Special Situations:* Equity special situations investing is designed to profit from investing in the equity securities of companies currently undergoing, or expected to undertake, restructuring activities or corporate transactions such as spin-offs, share repurchases, asset sales, or other catalyst-oriented situations. A conflict among shareholders is also considered a special situation. The Adviser seeks to profit by accurately predicting or anticipating the directional move in the equity or equity-related securities of the company subject to such an event.

*Credit Opportunities:* Credit opportunities investing is designed to profit from investing in the debt securities of companies undergoing catalyst driven changes such as mergers, spin-offs, restructurings, bankruptcies, and other types of corporate reorganizations.

The Adviser will also employ strategies such as:

*Convertible Arbitrage:* is a specialized strategy that seeks to profit from mis-pricings between a firm's convertible securities and its underlying equity. The most common convertible arbitrage approach, and the strategy the Adviser generally uses, matches a long position in the convertible security with a short position in the underlying common stock. The Adviser seeks to purchase convertible securities at discounts to their expected future values and sell short shares of the underlying common stock in order to help mitigate equity market movements. As stock prices rise and the convertible security becomes more equity sensitive, the Adviser may sell short additional common shares in order to help maintain the relationship between the convertible and the underlying common stock. As stock prices fall, the Adviser will typically buy back a portion of shares which it had sold short. Positions are typically designed to earn income from coupon or dividend payments and net gains from the purchase and sale of the convertible securities' positions and the underlying common stocks.

*Capital Structure Arbitrage:* seeks to profit from relative pricing discrepancies between related debt and/or equity securities. For example, when the Adviser believes that unsecured securities are overvalued in relation to senior secured securities, the Adviser may purchase a senior secured security of an issuer and sell short an unsecured security of the same issuer. In this example the trade would be profitable if credit quality spreads widened or if the issuer went



bankrupt and the recovery rate for the senior debt was higher than anticipated. Another example might involve the Adviser purchasing one class of common stock while selling short a different class of common stock of the same issuer. It is expected that, over time, the relative mispricing of the securities may decline, at which point the position will be liquidated.

*Derivatives:* The Adviser will employ the use of derivatives, such as options, as well as the short selling or purchase of related securities as well as those of peer companies, as the Advisor seeks to isolate the outcome of the investment in a particular “event” from the broader directional moves of the equity markets. Virtually all of the investment strategies employed by the Adviser are designed to identify and capture the potential profits associated with the price movements of underlying securities associated with each discreet corporate event in which it invests.

#### Account Monitoring and Review

The Adviser continually monitors the Client accounts and evaluates each investment’s risk/return profile, not only for each investment by itself, but also in the context of the Client’s overall portfolio and the availability of other potential mergers, corporate reorganizations and event driven opportunities. This enables the Adviser to seek to make timely and informed investment decisions if market prices of securities issued by companies involved in different event-driven situations adjust enough to justify inclusion in a Client portfolio. A result of this continual examination of investment conditions is that the Adviser does not use each of its available strategies at all times, but rather makes its investments according to what the Adviser believes are the best risk adjusted opportunities available.

#### Investment Strategies Risk

Investing in strategies offered by the Adviser involves a risk of loss that investors must be prepared to bear. The principal investment risks to the Adviser’s Clients are described below:

*Market Risk:* Market risk is the possibility that securities prices will fluctuate over time. This fluctuation includes both increases and decreases in security prices. The value of the Client’s investments, and the net asset value of a fund Client, will fluctuate. Clients (and their investors or beneficial owners) could lose money due to this price fluctuation.

*Merger Arbitrage Risk:* The principal risk associated with the a merger arbitrage investment strategy is that the proposed reorganizations in which the Client invests may be renegotiated or terminated, in which case the Client may realize losses.

*High Portfolio Turnover Risk:* Certain investment strategies may result in high portfolio turnover rates. This may increase a Client’s brokerage commission costs, which would reduce performance. Rapid portfolio turnover also exposes shareholders to a higher current realization of short-term gains which could cause Clients to pay higher taxes.

*Event Risk:* Event-driven seeks to exploit pricing inefficiencies that may occur before or after a corporate event, such as a bankruptcy, merger, acquisition, spin-off, or other corporate re-organization

or event. Corporate events often develop in unforeseen ways, and there is no guaranty that the corporate event will occur. Consequently, a strategy that is based upon corporate events may not succeed.

*Credit Risk:* Certain investments are subject to the risk that a creditor, including a derivatives counterparty, will be unable to pay amounts in full when due, causing a default and/or loss. Credit risks are exacerbated with respect to investments in high yield debt securities, known as “junk bonds”.

*Systemic Risk:* Systemic risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions, thereby threatening the financial system.

*Liquidity Risk:* At times financial markets may be subject to liquidity events that would preclude the timely liquidation of securities, derivatives and other investments, thereby adversely affecting Client’s cash needs.

*Derivatives/Hedging Risks:* Derivatives used to gain investment exposure or hedge various market risks, to manage the effective maturity or duration of fixed income securities or the exposure to various equity and other markets typically impose costs and involve risks, such as heightened counterparty risks, lack of liquidity, ineffectiveness of hedging in a particular situation, and the possible accentuation of losses or reductions in gains of the underlying securities.

*Foreign Securities Risk:* Investments in securities of foreign issuers and securities traded principally in markets outside the United States involve special risks due to foreign economic, political and legal developments.

*Currency Risk:* Clients may hold assets denominated in currencies other than United States dollars. These investments are exposed to currency risk, as the value of the securities denominated in other currencies may fluctuate due to changes in exchange rates.

*Small and Micro-Capitalization Securities Risk:* Small and micro-capitalization companies often experience greater price volatility, lower trading volume and less liquidity than larger, more established companies.

*General Economic and Market Conditions:* General economic, market conditions or events throughout the world that are outside of the control of the Adviser. Such conditions include but not limited to changes in interest rates, availability of credit for public and private borrowing, public market volatility, inflation rates, economic uncertainty, industry conditions, competition, technological developments, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and

international political circumstances (including wars, terrorist acts or security operations) may adversely affect the client's investment.

*Interest Rate Risk:* Prices of debt securities and preferred stocks tend to move inversely with changes in interest rates. Typically, a rise in rates will adversely affect prices of these securities.

*Convertible Security Risk:* Convertible securities are generally not as risky as the equity securities of the same issuer. However, convertible securities may gain or lose value due to changes in interest rates and other general economic conditions, industry fundamentals, market sentiment and changes in the issuer's operating results and credit ratings.

*Credit Default Swap Risks:* Credit default swaps increase credit risk when the Client is the seller and increase counterparty risk when the Client is the buyer. Credit default swaps may be illiquid and may be difficult to trade or value, especially in the event of market disruptions.

*Concentration Risk:* Although the Adviser seeks for Client assets to be diversified in various industries, a Client's account may become concentrated due to factors beyond the control of the Adviser. For example, if a large percentage of corporate events taking place within the U.S. are within one industry over a given period of time, a large portion of a Client's assets could be concentrated in that industry for that period of time.

*Cybersecurity Risk:* Water Island relies on the use of technologies to conduct business, and is susceptible to operational, information security and related risks, including risks of unintentional cyber incidents and deliberate cyber attacks. Cyber attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of corrupting data, or causing operational disruption, as well as denial-of-service attacks on websites. Cyber incidents may cause disruptions and impact business operations, potentially resulting in financial losses, interference with a Client's ability to value its securities or account investments, impediments to trading, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. While Water Island and its most significant counterparties and vendors have established business continuity plans and risk management systems to help mitigate cyber incidents, there are inherent limitations in such plans and systems that Water Island is not in a position to control.

For a description of the more detailed risks relating to any of the Arbitrage Funds or any sub-advised fund, please refer to the applicable fund's prospectus and Statement of Additional Information. For risks associated with investments in private funds advised by Water Island, please refer to the offering materials for that fund.

Water Island has implemented various diversification, liquidity and monitoring policies and procedures to attempt to mitigate certain of the risks identified above.

## **Item 9 – Disciplinary Information**

On February 12, 2015 the Adviser entered into a consent order with the SEC for the purpose of resolving allegations that it had failed to implement its compliance policies and procedures pursuant to Sections 12(b) and 17(f) of, and Rule 12b-1(h) under, the Investment Company Act of 1940. Specifically, the SEC alleged that during a period from January to September 2012, the Adviser did not ensure that certain assets of investment companies managed by the Adviser (the “Funds”) were maintained in the custody of the Funds’ qualified bank custodian. The assets were cash collateral from swap transactions that were temporarily held by the Funds’ broker-dealer counterparties. The SEC also found that the Adviser failed to create and maintain an approved list of executing brokers for the Funds, and did not maintain documentation sufficient to reflect its ongoing monitoring of the Funds’ compliance with Rule 12b-1(h). Each of these matters was remedied prior to May 31, 2013 and the SEC took into account the remedial acts taken by the Adviser promptly after discovery as well as the cooperation afforded to the SEC staff by the Adviser. The terms of the consent order required the Adviser to pay the fine set forth in Section 12(a) hereof, and to cease from committing or causing any future violations. The Adviser paid the agreed upon fine promptly after the consent order was finalized. No other terms or conditions were imposed.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Christina Chew, the Senior Managing Partner of Water Island, is a registered representative of the distributor of the Arbitrage Funds (ALPS Distributors Inc.). Neither the Adviser, nor any of its management persons, other than Ms. Chew are registered, or have an application pending to register, as a broker-dealer or registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor.

As noted in Item 4 above, Water Island Capital, LLC has two affiliates, Water Island Holdings, LLC and Water Island Capital U.K. Limited.

Water Island Capital U.K. Limited is a wholly owned, FCA-registered subsidiary of Water Island and is a provider of research and trading capabilities related to European, Middle Eastern, and African markets.

Water Island Holdings, LLC serves as the Manager to Water Island Global, LLC, and as general partner to Water Island Global Master, LP. Water Island Holdings, LLC is a special purpose vehicle under common control with Water Island Capital, LLC.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions & Personal Trading**

### Code of Ethics

Water Island has adopted a Code of Ethics to set forth high ethical standards of conduct that the Adviser expects of its employees, including compliance with fiduciary duties and SEC rules. The Code of Ethics is intended to ensure that Water Island and its employees place the interests of clients above their own personal interests. The Code of Ethics includes policies and procedures for the preclearance and reporting of personal securities trading of Access Persons of the Adviser. The Code of Ethics is available to any Client or prospective client upon request by email: [compliance@wicfunds.com](mailto:compliance@wicfunds.com) or by calling 646-727-4463.

### Participation or Interest in Client Transactions

Water Island's Employees may not take personal advantage of any opportunity properly belonging to a Client of the Adviser. Pursuant to the Adviser's policies and procedures, if an employee believes that he or she (or a related account) stands to benefit materially from an investment decision that the employee is recommending or making for a client of the Adviser, the employee must disclose that interest to the Chief Compliance Officer and obtain approval prior to making the investment in a manner consistent with Water Island's duties to its clients.

### Personal Trading

The Adviser's access persons (as defined in the Adviser's compliance manual and code of ethics) ("Access Persons") must obtain approval from the Chief Compliance Officer before directly or indirectly acquiring beneficial ownership of any security except for securities that are exempted from the preclearance requirements pursuant to Rule 204A-1(e)(10) of the Investment Advisers Act of 1940, as amended or the Code of Ethics. Access Persons must submit all required reports, initial and annual holdings reports, and quarterly reports of transactions in personal accounts to Water Island's compliance department.

The Chief Compliance Officer conducts reviews of the foregoing for compliance with the policies and procedures of the Adviser.

## **Item 12 – Brokerage Practices**

### Best Execution

While trade price is often a significant quantitative factor in best execution, the Adviser also evaluates qualitative execution factors when selecting brokers, such as research capabilities, success of prior research recommendations, ability to execute trades, the size of and difficulty in executing the order, depth of services provided, including back office and processing capabilities, financial stability and responsibility, the reliability, integrity and financial condition of the broker or dealer, commission rates, responsiveness to the Adviser and the value of research and brokerage products and services provided by such brokers. The determinative

factor is not the lowest possible commission cost alone. The Adviser's policy is to obtain the best execution of client transactions over the long term, taking into account the full range and quality of services offered by executing brokers.

The Adviser maintains a list of approved brokers (the "Approved Broker List") that may execute trades on behalf of clients. The Adviser's Brokerage Committee periodically (and at least semi-annually) reviews the execution quality of the brokers on the Approved Broker List and, based upon such review, may add or delete brokers at any time. Generally, all trades for clients will be executed through a broker on such list, unless in the opinion of the trader, best execution is obtainable through a broker not previously on the list.

#### Research and Other Soft Dollar Benefits

Water Island has adopted policies and procedures to which it may acquire brokerage and research services through the use of commissions or "soft dollars" to the extent permitted within the safe harbor provided under Section 28(e) of the Securities Exchange Act of 1934. Permitted products and services include, among other things, proprietary research from broker-dealers and research prepared by third parties. Research services obtained by the Adviser also include among other things, research concerning market, economic and financial data, a particular aspect of economics or on the economy in general, statistical information, data or pricing regarding securities, financial publications, electronic market quotations, performance analytics, analyses concerning specific securities, companies, industries or sectors and market, economic and financial studies and forecasts. Research may be in written or oral form. Clients may pay commissions higher than those obtainable from other brokers in return for these products and services. When the Adviser uses client brokerage commissions to obtain research or other products or services, it receives a benefit because it does not have to produce or pay for the research, product or services. This may present a conflict of interest in that the Adviser may have an incentive to select a broker-dealer based on its interest in receiving the research, product or other services, rather than on the client's interest in receiving most favorable execution. Consistent with the safe harbor provided under Section 28(e), eligible research obtained with soft dollars generated by one Client may be used for the benefit of other Clients. In practice, all of the Adviser's clients receive the benefit of these services and all trading is done in a manner consistent with the Adviser's best execution policies and procedures such that the Adviser determines in good faith that such commission is reasonable in relation to the value of brokerage, research and other services provided. The Chief Compliance Officer evaluates and monitors all soft dollar arrangements on an ongoing basis to ensure they comply with the requirements of Section 28(e). Any services that have the capacity to be used for eligible purposes and other purposes are designated as "mixed use" products and calculations are made to ensure soft dollars are used only for the eligible portion of the expenses, with the Adviser paying for the non-eligible portion out of its own "hard dollar" assets.

### Brokerage for Client Referrals

The Adviser does not consider whether it receives client referrals from a broker-dealer or third party in its selection of broker-dealers.

### Directed Brokerage

The Adviser does not recommend, request or require that a client direct the Adviser to execute transactions through a specified broker. However, under certain circumstances, a Client may request or require that the Adviser direct all or a portion of the Client's brokerage transactions to a specific broker. Any such direction must be in writing from the Client and approved by the Chief Compliance Officer. Clients that provided directed brokerage instructions to Water Island must be aware that such arrangements may cause them to give up benefits of better pricing or lower commission that might otherwise be available through participation in bunched orders, resulting in added costs for the Client.

### Order Aggregation

It is expected that orders for multiple accounts with shared investment strategies will be aggregated and transaction costs allocated in accordance with the following procedures: (1) Water Island will prepare, before entering an aggregated order, a written allocation statement specifying the participating Clients and how it intends to allocate the order among those Clients. (2) If the aggregated order is filled in its entirety, it will be allocated among Clients in accordance with the allocation statement. If the aggregated order is partially filled, it will be substantially allocated on a pro rata basis, subject to potential rounding to avoid odd lots and/or other similar administrative instances. If circumstances should call for different allocations, it is Water Island's policy that aggregated orders are to be allocated to eligible Clients in a fair and equitable manner over time.

## **Item 13 - Review of Accounts**

The Adviser's investment team provides continual oversight of its clients' portfolios, monitoring and reviewing each portfolio's positions daily. In addition, the investment team periodically conducts formal meetings to review and discuss the performance and composition of the portfolios' objectives. In the event of a significant market development, additional review outside of the regular scheduled meetings may be triggered.

Conditions that may trigger a review of Clients accounts include but are not limited to changes in applicable laws, new investment information or restrictions, and changes in a particular Client's cash needs or financial situation.

Investors in the Arbitrage Funds and Water Island Global, LLC receive written monthly and/or quarterly reports from their intermediaries or administrators that provide the value of the investor's interest. In addition, investors will be provided with an annual report that includes,

among other things, audited financial statements. The Adviser may also present account information via telephone conferences and in-person meetings.

## **Item 14 – Client Referrals and Other Compensation**

Other than the compensation described in Items 5 and 6, and the soft dollar practices of the Adviser noted in Item 12 above, it is the Adviser’s policy not to receive any economic benefit for providing investment advice or other advisory service to its clients.

The Adviser may engage in trading relationships with brokers that result in unrelated transaction-based compensation in respect of sales of the Arbitrage Funds pursuant to selling agreements with the distributor of The Arbitrage Funds. However, it is the Adviser’s policy that it does not consider the sale of the Arbitrage Funds’ shares when allocating brokerage transactions for its Clients. To mitigate any potential conflicts of interest, the Adviser monitors these arrangements for any correlation between the sales of fund shares by and the level of trading commissions spent with such brokers.

## **Item 15 – Custody**

The Adviser does not provide custodial services to its clients. Client assets are held with banks or registered broker-dealers that are “qualified custodians.”

Specifically, cash and securities for The Arbitrage Funds are maintained with one of the Funds’ custodians, that has been approved by the Funds’ Board of Trustees.

Investors in private funds advised by Water Island will receive the funds annual audited financial statements within 120 days after the close of such fund’s fiscal year.

## **Item 16 – Investment Discretion**

Pursuant to a client’s investment advisory agreement, the Adviser typically has discretion as to selection and amount of individual securities to be purchased or sold for a Client’s account, the total amount of securities to be bought or sold, the brokers through which the securities are to be bought and sold and the commission rates as which securities transactions for client accounts are effected. A client may request that specific limitations or restrictions be placed on its account, as outlined in the client’s investment advisory agreement.

## **Item 17 – Voting Client Securities**



The Adviser has adopted and implemented proxy voting policies and procedures that are designed to ensure that the Adviser votes proxies with respect to client securities in the best interests of its clients in accordance with Rule 206(4)-6 of the Investment Advisers Act of 1940, as amended.

The Adviser's proxy voting policies are designed to reasonably ensure that the Adviser votes proxies in the best interest of Clients for which it has voting authority. The policies describe how Water Island addresses material conflicts between its interests and those of its Clients with respect to proxy voting. Under the policies, Water Island will generally vote proxies by considering those factors that would affect the value of the securities held by Clients. Any potential material conflicts between Water Island's interests and those of its Clients are typically addressed by (a) relying on the pre-determined voting guidelines outlined in the policies; (b) using the recommendations of an independent third party; or (c) disclosing material conflicts to the Client and obtaining instructions from the Client before voting.

The Adviser, through Broadridge's Proxy Edge, votes proxies on behalf of each account over which the Adviser has proxy voting authority. For those accounts that the Adviser does not have the authority to vote client securities, the proxies will be sent to the Client or its designee if not sent to the Client directly by the custodian or transfer agent. Clients or their designee may contact the Adviser directly to discuss questions about a particular solicitation.

Clients may request a record of how proxy votes were cast on their behalf. Furthermore, clients may obtain a copy of Water Island's proxy voting policies and procedures upon request. Such requests should be directed to [compliance@wicfunds.com](mailto:compliance@wicfunds.com) or 646-727-4463.

## **Item 18 – Financial Information**

The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its Clients nor has it been the subject of a bankruptcy proceeding.