



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. 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.

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

There have been no material changes to this Brochure (Part 2A of Form ADV) since it was last filed in March 2017.

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Item 4 – Advisory Business

Water Island Capital, LLC (“Water Island” or the “Adviser”) is an independent, employee-owned investment advisory firm with its principal place of business in New York City. The Adviser’s majority owner is John Orrico. The Adviser was founded in 2000 and has been registered with the SEC since that time. The Adviser has been serving the institutional and retail investor communities for over 17 years with a commitment to adding alpha through rigorous fundamental research.

Water Island specializes in event-driven investing. We execute our capabilities within a merger arbitrage framework and a special situations framework. Both the merger arbitrage and the special situations strategies approach their opportunity set with a capital structure agnostic approach, allowing us to position our investment in both equity or credit instruments. These strategies are available to prospective institutional and retail clients (“Clients”) through public mutual funds, institutional separate accounts and private funds. Clients may 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. Clients may impose reasonable restrictions on investments.

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, as well as the privately-offered funds listed below.

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 that serves as the general partner to Water Island Global Master, LP, a Cayman Islands exempted limited partnership and as the managing member of Water Island Event-Driven Fund, LLC, a Delaware limited liability company.

Water Island LevArb GP, LLC is a special purpose vehicle that serves as the general partner to Water Island LevArb Fund, LP, a Delaware limited partnership.

Water Island Merger Arbitrage Institutional Commingled GP, LLC is a special purpose vehicle that serves as the general partner to Water Island Merger Arbitrage Institutional Commingled Fund, LP, a Delaware limited partnership.

Water Island does not participate in wrap fee programs.

As of February 28, 2018, Water Island managed \$3.726 billion in regulatory assets on a 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">• 1.25% on the first \$250 million• 1.20% on The Arbitrage Fund’s next \$50 million• 1.15% on The Arbitrage Fund’s next \$50 million• 1.10% on The Arbitrage Fund’s next \$50 million• 1.05% on The Arbitrage Fund’s next \$75 million• 1.00% on The Arbitrage Fund’s average daily assets in excess of \$500 million
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. Existing or prospective shareholders 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 four privately-offered funds. The Adviser receives a management fee based on the value of the funds' assets as set forth in their respective offering documents. Additionally, the managing member of Water Island Event-Driven Fund, LLC and the general partner of Water Island LevArb Fund, LP are each entitled to receive a performance allocation, which is described fully in each fund's offering documents. The advisory fee and performance allocation rates vary depending on the share class.

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 performance fees with respect to any Client or investor subject to performance fees.

The Adviser recognizes that performance fee arrangements may pose 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 trade aggregation. The Compliance department 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. The Firm's investment advisory services 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 or by calling (800) 295-4485. The offering materials for private funds 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.

The Adviser continually monitors 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 process enables the Adviser 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. Continual examination of investment conditions enables the Adviser to make investments according to what it believes are the best risk adjusted opportunities, rather than using each of its available strategies at all times.

Investment Strategies

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. Virtually all of the investment strategies used 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 the Adviser invests on behalf of its Clients.

Merger Arbitrage: Merger arbitrage is a highly specialized investment approach designed to profit from the successful completion of corporate reorganizations such as mergers, acquisitions, takeovers, tender offers, and leveraged buyouts. The most common merger arbitrage activity, and the approach the Adviser generally uses, involves purchasing the securities (either equity or debt) of the target company in a definitive, publicly-announced merger at a discount to its 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.

Special Situations: Special situations investing is designed to profit from investing in the equity or debt securities of companies currently undergoing, or expected to undertake, corporate transactions such as spin-offs, share repurchases, asset sales, refinancings, recapitalizations, debt maturities, restructuring activities, or other catalyst-driven situations. A conflict among shareholders is also considered a special situation. The Adviser may also use a relative value approach by taking long positions in cash bonds and/or derivatives to express positive views on specific issuers and by taking short positions in cash bonds and/or derivatives to express negative views on specific issuers. The Adviser uses fundamental research to identify mispricings or inefficiencies in these situations and assesses their potential impact on security prices. The Adviser seeks to profit by accurately predicting or anticipating the directional move in the equity, debt, or related securities of the company subject to such an event. The goal is to generate returns more correlated to the outcome of specific catalysts or events than to overall market direction.

Derivatives/Hedging: To effect each of the investment strategies described above, the Adviser may use derivatives, such as options, as well as short selling or purchase of related securities and those of peer companies, to isolate the outcome of the investment in a particular "event" from the broader directional moves of the securities markets.

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:

Active Management Risk: There is risk associated with an actively managed investment portfolio. The Adviser will apply its investment and risk analysis in making investment decisions for the Fund, but there is no guarantee that these decisions will produce the intended results.

Appraisal Rights Exercise Risk: A corporation's minority shareholders may have a statutory right of appraisal to have a fair stock price determined by a judicial proceeding or by an independent valuator, which obligates the acquiring corporation to repurchase the shares at the determined price. Appraisal rights are a protection for minority shareholders that prevent the acquiring company in a merger from paying less than the acquired company is worth to shareholders. A Fund exercising appraisal rights may be subject to additional costs of the appraisal proceeding without receiving an increased return on its investment if the appraisal does not result in a higher share price. A Fund exercising appraisal rights may also experience limited liquidity on its investment while the subject securities are being appraised, which may limit the Fund's ability to pursue other investments and achieve its investment objective.

Concentration Risk: Although the Adviser strives for industry diversification in the portfolios it manages, Client accounts may become concentrated if a large percentage of corporate events are concentrated within one industry over a given period of time.

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.

Counterparty Risk: The Adviser may enter into various types of derivative contracts. These derivative contracts may be privately negotiated in the over-the-counter market. These contracts also involve exposure to credit risk since contract performance depends in part on the financial condition of the counterparty.

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.

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".

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.

Cybersecurity Risk: Water Island relies on the use of technology 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, 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 business operation disruptions, such as interference with the Adviser’s ability to trade or value Clients’ investments and may result in violations of applicable privacy and other laws, regulatory penalties, reputational damage, and other financial losses. While Water Island and its most significant counterparties and vendors have established business continuity plans and cybersecurity measures to prevent and mitigate cyber incidents, there is a possibility that such measures may not be completely effective in preventing all cyber incidents.

Derivatives: Derivatives, which may be used to gain investment or market exposure, hedge various market risks, and manage the effective maturity or duration of fixed income securities, typically impose costs and involve risks, such as heightened counterparty risks, reduced liquidity, ineffectiveness of hedging in a particular situation, and the possible accentuation of losses or reductions in gains of the underlying securities.

Event Risk: Event-driven strategies seek 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 may develop in unforeseen ways, and there is no guarantee that the corporate event will occur. Consequently, a strategy that is based upon corporate events may not succeed.

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. Securities of foreign issuers may be less liquid and more volatile than securities of comparable U.S. issuers. The costs associated with securities transactions may be higher in foreign countries than in the United States. Foreign companies may not be subject to the same regulatory requirements of U.S. companies and may not be subject to uniform accounting, auditing, and financial reporting standards applicable to U.S. 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 as changes in interest rates, availability of credit for public and private borrowing, 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 value of Clients’ investments.

Hedging Transaction Risk: The success of a hedging strategy, if used, will be subject to the Adviser’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 the Adviser from achieving the intended hedge or expose the portfolio to risk of loss. Hedging transactions also limit the opportunity for gain if the value of a hedged portfolio position should increase.

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

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.

Leverage Risks: If the Adviser uses leverage through activities such as borrowing, entering into short sales, purchasing securities on margin or on a "when-issued" basis or purchasing derivative instruments in an effort to increase investment returns, the Client has the risk of magnified capital losses that occur when losses affect an asset base, enlarged by borrowings or the creation of liabilities, that exceeds the net assets of the Client.

Liquidity Risk: Periods of stress in the financial markets may result in a reduced number of market participants, which may affect the Adviser's ability to liquidate Clients' investments in a timely and orderly manner.

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 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.

Preferred Securities Risk: Investments in preferred stocks may be subject to the risks of deferred distribution payments, subordination to debt instruments, a lack of liquidity compared to equities, limited voting rights and sensitivity to interest-rate changes.

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.

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.

For a more detailed description of 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 a fine of \$50,000 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, or commodity trading advisor.

As noted in Item 4 above, Water Island Capital, LLC has four affiliates: Water Island Capital U.K. Limited, Water Island Holdings, LLC, Water Island LevArb GP, LLC, and Water Island Merger Arbitrage Institutional Commingled GP, LLC.

Water Island UK, a wholly owned, FCA-registered subsidiary of the Adviser, provides research and trading capabilities related to European, Middle Eastern, and African Markets for Client accounts. Water Island UK is not registered with the SEC as an investment adviser but has entered into a “Participating Affiliate” Agreement undertaking to meet all requirements set forth in a series of SEC no-action relief letters mandating that “Participating Affiliates” remain subject to the regulatory supervision of both the Adviser and the SEC.

Water Island Holdings, LLC is a special purpose vehicle that serves as the general partner to Water Island Global Master, LP, a Cayman Islands exempted limited partnership and as the managing member of Water Island Event-Driven Fund, LLC, a Delaware limited liability company. Water Island Holdings, LLC is under common control with the Adviser.

Water Island LevArb GP, LLC is a special purpose vehicle that serves as the general partner to Water Island LevArb Fund, LP. Water Island LevArb GP, LLC is under common control with the Adviser.

Water Island Merger Arbitrage Institutional Commingled GP, LLC is a special purpose vehicle that serves as the general partner to Water Island Merger Arbitrage Institutional Commingled Fund. Water Island Merger Arbitrage Institutional Commingled GP, LLC is under common control with the Adviser.

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

Code of Ethics

Water Island has adopted a Code of Ethics that sets forth high ethical standards of conduct that the Adviser expects of its employees, including compliance with fiduciary duties and federal securities laws. 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 (“Access Persons,” as defined in the Adviser’s Code of Ethics). The Code of Ethics is available to any Client or prospective client upon request by email: 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 must obtain approval from the Compliance department before directly or indirectly acquiring beneficial ownership of any security, except for securities that are exempted from the reporting requirements pursuant to Rule 204A-1(e)(10) of the Investment Advisers Act of 1940, as amended. 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 Compliance department 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 seek 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 reviews the execution quality of the brokers on the Approved Broker List.

Research and Other Soft Dollar Benefits

Water Island has adopted policies and procedures under which it may acquire brokerage and research services through the use of commissions or "soft dollars," to the extent permitted by 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 may include research concerning market, economic and financial data, particular aspects of economics or the economy in general, analyses

concerning specific securities, companies, industries or sectors and market, economic and financial studies and forecasts.

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 with its own “hard dollars.” 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 the 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, which requires that the Adviser determine in good faith that commissions are reasonable in relation to the value of brokerage, research and other services provided. The Compliance department evaluates and monitors all soft dollar arrangements on an ongoing basis to ensure they fall within the safe harbor provided by Section 28(e). Any services that are used for eligible purposes and other purposes are designated as “mixed use” products, for which the Adviser makes a good faith determination to allocate costs between soft and hard dollars, based on the way the product or service is used.

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 provide directed brokerage instructions to Water Island must be aware that such arrangements may cause them to give up benefits of better pricing or lower commissions that might otherwise be available through participation in bunched orders, resulting in added costs for the Client.

Order Aggregation

It is expected that most orders for multiple accounts will be aggregated and transaction costs allocated on a pro-rata basis. Aggregation of trades allows timely and efficient execution of trades, because typically, a more favorable price can be achieved by executing bunched orders as opposed to executing a number of individual, sequential purchase or sale transactions. Absent

unusual circumstances, all investment opportunities that are consistent with investment policies for Clients advised by Water Island will be allocated to each Client based on the relative assets of the Client Accounts. When circumstances 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. The Adviser's aggregation and allocation policies require that, before entering an aggregated order, the eligible accounts and targeted positions are stored within the Order Management System for allocations. If the aggregated order is filled in its entirety, it will be allocated among Clients in accordance with the allocation statement. If partially filled, it will be allocated on a pro rata basis, subject to rounding to avoid odd lots or de minimis allocations.

Item 13 - Review of Accounts

The Adviser's investment team provides continual oversight of Clients' portfolios, monitoring and reviewing each portfolio's positions daily. In addition, the investment team periodically meets to review and discuss the performance of the portfolios' holdings as well as the composition of the overall portfolio and the availability of other potential opportunities. In the event of a significant market development, additional review outside of the regular scheduled meetings may be triggered.

The Adviser facilitates all required regulatory reporting to shareholders of the Arbitrage Funds. Sub-advisory Clients have full transparency to their portfolio holdings. The frequency, format and scope of customized reports are determined by the specific requests of each sub-advisory Client.

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 other economic benefit for providing investment advice to Clients.

The Adviser may engage in trading relationships with brokers that may have 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 broker allocation for any correlation with sales of fund shares to identify possible violations of this policy.

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 have 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 at 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 votes proxies on behalf of each account over which the Adviser has proxy voting authority through Broadridge's Proxy Edge. For Client accounts that have not delegated proxy voting authority to the Adviser, proxies are sent to the Client or its designee, if not sent to the Client directly by the custodian or transfer agent.

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 under the Investment Advisers Act of 1940, as amended. Water Island will generally vote proxies by considering factors that could 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 following the recommendations of an independent third party or disclosing material conflicts to the Client and obtaining instructions from the Client before voting.

Clients may request a record of how proxy votes were cast on their behalf. Clients may also obtain a copy of Water Island's proxy voting policies and procedures upon request. Such requests should be directed to 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.