



# Water Island Capital

## Form ADV Part 2A 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

The last annual update of this Brochure was dated March 28, 2019. While there have been no material changes to Water Island Capital, LLC's ("Water Island" or the Adviser") investment strategies, portfolio management processes, trading practices or compliance policies and procedures, including Code of Ethics, the following material changes have been made to this Brochure:

- Items 4, 5, 7 and 10 were updated to describe the establishment of AltShares Trust, a registered investment company, and its first series, AltShares Merger Arbitrage ETF, an exchange-traded fund ("ETF") that is expected to launch in the second quarter of 2020;
- Items 4 and 10 were updated to add Water Island Indices LLC as a related person that has ultimately granted a sub-license to AltShares Trust to use certain indexes and intellectual property in connection with the operation of its ETF;
- Item 5 was updated to mention that certain proprietary funds managed by Water Island may invest in one or more other funds offered by the Adviser or a related person to gain exposure to such funds' investments and to expand discussion of the other fees and expenses not paid to Water Island that clients may incur in their accounts;
- Item 6 was updated to expand disclosure regarding the inherent conflicts of interest that may arise from the side-by-side management of multiple accounts, including those with different fee schedules and various investment strategies;
- Item 8 was updated to expand discussion of the Adviser's methods of analysis, investment strategies and related risks;
- Item 11 was updated to expand discussion of the Adviser's Code of Ethics and other policies and procedures that were implemented to mitigate certain potential conflicts of interest relating to personal trading and other employee activities and participation or interest in client transactions;
- Item 12 was updated to expand discussion of the Adviser's brokerage practices; and
- Item 13 was updated to expand discussion of the types of reviews of Client accounts that are undertaken by the Adviser.

Other changes made to the Brochure are considered non-material.

## Item 3 - Table of Contents

Item 2 - Material Changes .....	1
Item 4 – Advisory Business .....	3
Item 5 – Fees and Compensation .....	4
Item 6 – Performance-Based Fees and Side-by-Side Management .....	6
Item 7 – Types of Clients .....	9
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	9
Item 9 – Disciplinary Information .....	20
Item 10 – Other Financial Industry Activities and Affiliations .....	20
Item 11 – Code of Ethics, Participation or Interest in Client Transactions & Personal Trading .....	21
Item 12 – Brokerage Practices .....	25
Item 13 – Review of Accounts .....	29
Item 14 – Client Referrals and Other Compensation .....	30
Item 15 – Custody .....	30
Item 16 – Investment Discretion .....	31
Item 17 – Voting Client Securities .....	31
Item 18 – Financial Information .....	31

## Item 4 – Advisory Business

Water Island Capital, LLC is owned by Water Island Capital Partners LP. The general partner of Water Island Capital Partners LP is Water Island Capital Partners GP LLC. John Orrico is the majority owner of Water Island Capital Partners GP LLC and Water Island Capital Partners LP.

The Adviser's principal place of business is in New York City. 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 19 years with a commitment to adding alpha through rigorous fundamental research.

Water Island specializes in event-driven investing. Water Island executes its 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 the Adviser to position its investments in both equity and credit instruments. These strategies are available to prospective institutional and retail clients ("Clients") through mutual funds, an ETF, private funds, and institutional separately managed accounts. 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, an open-end management investment company registered under the Investment Company Act of 1940 (the "1940 Act"). The Arbitrage Funds currently offers four series of mutual funds: Arbitrage Fund, Water Island Diversified Event-Driven Fund (formerly Arbitrage Event-Driven Fund), Water Island Credit Opportunities Fund, and Water Island Long/Short Fund.

Water Island also is the investment adviser to AltShares Trust, an open-end management investment company registered under the 1940 Act. AltShares Trust currently offers one series: AltShares Merger Arbitrage ETF.

In addition, Water Island serves as an investment sub-adviser to other mutual funds managed by other investment advisers that are not affiliated with Water Island.

Moreover, Water Island serves as investment manager of certain private funds for which related persons act as general partner or managing member.

Water Island Holdings, LLC is a special purpose vehicle that serves as 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 both Water Island Merger Arbitrage Institutional Commingled Master Fund, LP (the “Master Fund”), a Cayman Island exempted limited partnership, and Water Island Merger Arbitrage Institutional Commingled Fund, LP (the “Feeder Fund”), a Delaware limited partnership. The Feeder Fund and Master Fund are part of a master-feeder arrangement.

Water Island Capital U.K. Limited (“Water Island UK”) is a wholly owned subsidiary of the Adviser located in London, United Kingdom (“UK”). 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 Capital Partners GP LLC is a special purpose vehicle that serves as the general partner of Water Island Capital Partners LP, which owns the Adviser.

Water Island Indices LLC is a related person under common control with the Adviser that owns and maintains certain indexes and associated intellectual property. Water Island Indices LLC has granted a license to the indexes and associated intellectual property to the Adviser, and the Adviser has sublicensed its rights thereunder to AltShares Trust, for the right to use the indexes and intellectual property in connection with the establishment and operation of the ETF offered by AltShares Trust.

Water Island does not participate in wrap fee programs.

As of December 31, 2019, Water Island managed \$2.982 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. Under the terms of the agreement, 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 schedules:

FUND	ADVISORY FEE
Arbitrage Fund	<ul style="list-style-type: none"> <li>• 1.25% on the first \$250 million,</li> <li>• 1.20% on the next \$50 million,</li> <li>• 1.15% on the next \$50 million,</li> <li>• 1.10% on the next \$75 million,</li> <li>• 1.05% on the next \$75 million, and</li> <li>• 1.00% on average daily net assets in excess of \$500 million</li> </ul>

Water Island Credit Opportunities Fund	<ul style="list-style-type: none"> <li>• 0.95% on the first \$250 million,</li> <li>• 0.90% on the next \$500 million, and</li> <li>• 0.85% on average daily net assets in excess of \$750 million</li> </ul>
Water Island Diversified Event-Driven Fund	1.10% of average daily net assets
Water Island Long/Short Fund	1.25% of average daily net assets

Water Island also is the investment adviser to AltShares Trust pursuant to an investment advisory agreement. Under the terms of this agreement, the Adviser may be reimbursed for certain expenses and receives advisory fees for managing its ETF, payable monthly, at an annual rate on the average daily net assets in accordance with the following schedule:

<b>FUND</b>	<b>ADVISORY FEE</b>
AltShares Merger Arbitrage ETF	0.75% of average daily net assets

Water Island is the sub-adviser to certain 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 and types of fees and expenses to be paid by such investor.

Water Island is the investment adviser to certain privately offered pooled investment vehicles. The Adviser receives a management fee based on the value of these proprietary 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. Water Island may waive or charge lower management fees (including performance fees) to current and former employees and their family members who invest in pooled investment vehicles for which the Adviser or a related person acts as general partner or managing member.

From time to time, one or more proprietary funds managed by the Adviser may invest its assets in one or more other funds offered by the Adviser or a related person to gain exposure to its investments. Investors in such proprietary funds will not be charged duplicate advisory fees.

However, the proprietary funds will indirectly bear the fees and expenses of any affiliated funds they invest in, as is the case with other acquired funds, to the extent such fees and expenses are payable.

Water Island also offers its services to Clients through separately managed accounts. Actual fees, minimum fees, minimum account sizes, and how fees will be charged may be negotiated and may vary depending on the Client, nature, and/or amount of services provided or as otherwise agreed upon with each Client. Fees may be higher or lower than the fees reflected above.

Clients will incur brokerage and other transaction costs in connection with securities transactions that Water Island engages for their accounts. Such costs may include brokerage commissions, commission equivalents, mark-ups and mark-downs, odd-lot differentials, exchange fees, SEC fees, transfer taxes, and other transaction costs. Please refer to Item 12 of this Brochure regarding Water Island's brokerage practices.

In addition, other types of fees and expenses that Clients may incur include custody fees, borrowing costs, including on securities sold short, dividend expenses on securities sold short, acquired fund fees and expenses, administration fees, fees for professional services, such as accounting, audit, tax, and legal services, taxes or fees mandated by federal, state or other applicable laws, and other miscellaneous costs.

The brokerage and other transaction costs and other fees and expenses will vary based on the type of account, instruments traded, trading frequency, and other factors that may be unique to a strategy or account. These fees and expenses are the sole responsibility of each Client. Water Island does not receive any portion of these other fees and expenses. Please refer to the prospectus or other offering document of each fund you wish to invest in for a description of the types of fees and expenses that investors may pay in connection with their investments in such fund.

Neither Water Island nor its employees accept third party compensation, including asset-based sales charges or services fees, for the sale of securities or other investment products.

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

As noted in Item 5 above, Water Island may, from time to time, enter into performance fee arrangements with Clients that entitle the Adviser or one of its related persons to receive a percentage of the realized or unrealized profits attributable to the Client's account over a certain period of time. Water Island 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.

Performance fees received by Water Island and/or its related persons 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.

Conflict of interest may arise where the financial or other benefits available to an investment adviser or a portfolio manager differ among the funds and/or accounts under management. For example, when the structure of an investment adviser's management fee differs among the funds and/or accounts under management, such as where certain funds or accounts pay higher management fees or performance-based fees ("higher fee accounts"), a portfolio manager might be motivated to favor certain funds and/or accounts over others.

An investment adviser and its portfolio managers face certain inherent conflicts of interest in such situations, including:

- The investment adviser may be incentivized to allocate more attractive investment opportunities to higher fee accounts;
- The investment adviser may be incentivized to make investments that are riskier or more speculative in higher fee accounts;
- A portfolio manager whose compensation is heavily correlated to performance may take on excessive risk with an aim to inflate performance in higher fee accounts; and/or
- An investment adviser may benefit from assigning higher value to securities in higher fee accounts.

An investment adviser and its portfolio managers might also be motivated to favor accounts in which the investment adviser or portfolio managers have a financial interest.

For example, Water Island may from time to time establish "pilot" or "incubator" funds for the purpose of testing or seeding proposed investment strategies or products prior to accepting assets from outside investors. Typically, Water Island or a related person supplies the funding for these accounts. Employees of Water Island, including portfolio managers, may also invest in certain pilot accounts. Similarly, the desire to maintain or raise assets under management or to enhance the portfolio manager's performance record in a particular investment strategy or to derive other rewards, financial or otherwise, could influence a portfolio manager to lend preferential treatment to those Client accounts that could most significantly benefit the portfolio manager. Water Island has adopted policies and procedures to ensure proprietary hedge funds (including pilot accounts) are not favored over other Client accounts when allocating investment opportunities and to treat such funds and accounts in the same manner as other Client accounts for purposes of trade order aggregation and allocation (except that pilot accounts do not participate in initial public offerings ("IPOs")).

Water Island recognizes that managing multiple accounts on a side-by-side basis may pose conflicts of interest that require investment oversight and compliance monitoring and controls. Accordingly, Water Island's investment process and operational procedures are reasonably designed and implemented to ensure that all accounts are treated fairly regardless of fee



structure and to ensure that performance fee-based arrangements and other financial incentives do not influence the allocation of investment opportunities among Client accounts. Each of Water Island's investment strategies are managed by a team of portfolio managers, and performance in portfolios with like strategies is regularly reviewed by management.

Water Island provides investment advisory services to a variety of Clients using various investment strategies. The Adviser may give different advice, take different action, or time trades differently for different accounts.

If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple Client accounts, the investment opportunity may be allocated among those multiple Client accounts, which may limit a Client's ability to take full advantage of the investment opportunity, due to liquidity constraints or other factors. Water Island has adopted trade allocation procedures designed to ensure that allocations of limited investment opportunities are conducted in a fair and equitable manner between Client accounts. All allocations are made pursuant to a pre-determined allocation methodology. Nevertheless, investment opportunities may be allocated differently among Client accounts due to the investment objectives or characteristics of an account, such as the size of the account, cash availability, current holdings, investment guidelines and restrictions, risk tolerance and/or controls, or other restrictions. Water Island performs periodic reviews of the performance of accounts to determine whether the Adviser's allocation policies are effective in ensuring equitable treatment of Clients.

Accounts with similar investment strategies may be managed differently at times, which may lead to a difference in performance. While the same investment practices are generally applied to all accounts within a given strategy, investment decisions are made specifically to meet the unique objectives of each Client. As noted above, differences in Clients' investment objectives or the characteristics of their accounts may lead to different investment decisions, and ultimately different performance, even among similar accounts within the same strategy.

For a variety of reasons, Water Island may simultaneously recommend the sale of a particular security for one account while recommending its purchase for another. For example, if Water Island needs to raise cash for a redemption or withdrawal in a particular account, the Adviser may sell a security that it is buying in one or more other accounts.

Water Island and its portfolio management team may also manage multiple portfolios with different investment strategies. As such, the potential exists for short sales of securities in certain portfolios while the same security is held long in one or more other portfolios. Selling a security short may result in a decrease of its value; conversely, purchasing a security may result in an increase in its value. Since certain client positions may be conflicted under these arrangements, Water Island has established and implemented procedures reasonably designed to ensure that all of the Adviser's Clients are treated fairly and equitably. The procedures include monitoring and surveillance of trading activity and supervisory reviews of Client accounts. Any proposed cross trades must be reviewed and approved by Water Island's Compliance department prior to execution and comply with all regulatory requirements.

Please refer to Item 12 of this Brochure for a description of Water Island's trade order aggregation and allocation procedures and other brokerage practices.

To mitigate potential conflicts of interest regarding pricing of securities, Water Island has formal pricing policies and procedures for valuing account assets in instances when market prices are either unavailable or deemed to be unreliable.

## **Item 7 – Types of Clients**

Water Island is an independent, employee-owned registered investment adviser that specializes in event-driven investing. Water Island manages accounts for both institutional and retail Clients. Water Island's investment advisory services are available to investors through registered investment companies (including mutual funds and an ETF), other pooled investment vehicles (so-called "hedge funds" or "private funds"), and separately managed accounts.

Clients advised by Water Island may include corporations, foundations, endowments, pension and profit-sharing plans, registered investment companies, and private funds, 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 requirements for investing in AltShares Merger Arbitrage ETF, a series of AltShares Trust, are set forth in AltShares Trust's Prospectus and Statement of Additional Information, which can be accessed by visiting [www.altsharesetfs.com](http://www.altsharesetfs.com) or by calling (855) 955-1607.

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 employs a fundamental research process, conducting bottom-up analysis of each event opportunity by assessing the strategic rationale, risk/reward, trading dynamics, shareholder registry, regulatory requirements, industry trends and other idiosyncratic factors that are instrumental in the successful outcome of each corporate event.

Several subjective and objective factors are considered when assessing the attractiveness of each event, such as duration of catalyst, definitiveness of the catalyst, event premiums priced in, potential downside, potential upside, volatility, and the impact of macro factors such as equity valuations, credit spreads, and interest rates. Where applicable, the Adviser's portfolio management teams will also analyze the capital structure to determine if the available equity or credit securities provide a better approach to investing in the event from a risk/reward standpoint. The portfolio management team conducts a thorough analysis of each transaction with a focus on assessing the deal terms, dollar and percentage spreads, timelines for regulatory approvals, expected closing dates, and other conditions set forth in any definitive agreement, as applicable. This data leads the team to determine appropriate buy and sell price levels, position sizing, and hedging strategies. Security weights are determined by the team's analysis of the risk/reward profile of each deal and the desired risk characteristics of the Client, with particular attention to the team's internal downside assessment. Other factors such as liquidity, daily trading volume, and the ability to hedge with options are considered, along with the strategic rationale underpinning the transaction, management's commitment to the deal, and shareholder reaction to the deal.

A primary tenet of the Adviser's investment 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 the Adviser's process, which can be described as a disciplined fundamental approach that values downside protection while seeking to identify available compelling risk/reward opportunities as the Adviser screens catalyst-driven corporate events.

The Adviser continually monitors and evaluates each investment's risk/return profile, relative to its predetermined exit strategy and relative to other investment 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 reorganization 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 discrete corporate event in which the Adviser invests on behalf of its Clients.

*Merger Arbitrage:* Merger arbitrage, also known as risk 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.

A merger arbitrage investor attempts to capture the spread, or difference, between the price at which a target company in a merger and acquisition transaction currently trades and the price at which it will be acquired. A merger arbitrageur underwrites the risk that the merger will not close on time or at all. Due to this slight uncertainty, the target company's stock will typically trade at a discount to the deal value. This discrepancy or inefficiency is the arbitrageur's profit opportunity.

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 (i.e., a stock-for-stock transaction). In such a case, the securities of the company to be acquired (i.e., the target company) 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.

For certain Client accounts, the Adviser may invest in fixed and floating rate income instruments 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.

*Derivatives/Hedging:* Water Island may use derivative instruments, such as forward contracts, options (both written and purchased), and swap contracts, to gain investment or market exposure, hedge various market risks, and manage the effective maturity or duration of fixed income securities.

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 an investment in a particular "event" from the broader directional moves of the securities markets. The Adviser most

commonly uses short positions to minimize market exposure in a Client portfolio. The primary purpose of short positions is as a hedge in deals where some or all of the deal consideration is to be paid in stock. The Adviser may also engage in short selling as a portfolio level hedge or to initiate short alpha positions (“reversals”) in instances where the Adviser believes the market is mispricing the risks associated with a transaction or where the Adviser believes the transaction is unlikely to successfully complete.

*Other Strategies:* In addition to the strategies described above, the Adviser may invest in other investments or utilize other strategies. For example, for certain of its privately offered pooled investment vehicles, the Adviser may engage in active trading and may invest a portion of their assets to seek short-term capital appreciation. The success of these strategies will depend upon, among other things, the Adviser’s skill in evaluating the likelihood of the various potential outcomes and the market’s reaction to those outcomes.

*Cash Management/Temporary Investments:* Water Island generally seeks to maintain fully invested portfolios, however, there are times when cash balances may be elevated for various reasons. The Adviser may also adopt temporary defensive positions in response to adverse market, economic, political, or other conditions. Depending upon the level of corporate activity and other economic and market conditions, the Adviser may temporarily invest a substantial portion of its assets in cash or cash equivalents, including money market funds, money market instruments such as Treasury bills, and other temporary investments.

#### Risk of Loss and Other Risks

While Water Island seeks to manage accounts so that the risks are appropriate to the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Investing in strategies offered by the Adviser involves a risk of loss that investors must be prepared to bear.

The following are certain important risks that should be considered by Clients before investing:

*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 Clients, but there is no guarantee that these decisions will produce the intended results.<sup>1</sup>

*Merger Arbitrage and Other Event-Driven Risks:* The principal risk associated with the Adviser’s merger arbitrage and other event-driven investment strategies is that the proposed reorganizations in which the Adviser invests may be renegotiated or terminated, in which case a Client may realize losses. Merger arbitrage and event-driven investing involves the risk that the Adviser’s evaluation of the outcome of a proposed event will prove incorrect or the market may

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<sup>1</sup> The ETF offered by AltShares Trust is not actively managed and does not take temporary defensive positions when markets decline. It seeks to provide investment results that closely correspond, before fees and expenses, to the performance of its underlying index.

react differently than expected to the anticipated transaction. Event-driven investment transactions are also subject to the risk of overall market movements. Any one of these risks could cause a Client to experience investment losses. Consequently, a strategy that is based upon corporate events may not succeed.

*Special Situations Risks:* A Client may seek to benefit from “special situations,” such as mergers, acquisitions, consolidations, bankruptcies, liquidations, reorganizations, restructurings, tender or exchange offers, or other unusual events expected to affect a particular issuer. Investing in special situations carries the risk that certain of such situations may not happen as anticipated or the market may react differently than expected to such situations. The securities of companies involved in special situations may be more volatile than other securities, may at times be illiquid, or may be difficult to value. Certain special situations carry the additional risks inherent in difficult corporate transitions and the securities of such companies may be more likely to lose value than the securities of more stable companies.

*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 to mitigate the risk of the acquiring company in a merger from paying less than the acquired company is worth to shareholders. However, there is no guarantee that exercising appraisal rights will result in a Client receiving an amount greater than the previously paid share price. There is the risk that a Client exercising appraisal rights may receive less value. Moreover, a Client 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 Client exercising appraisal rights may also experience limited liquidity on its investment while the subject securities are being appraised, which may limit the Adviser’s ability to pursue other investments and achieve its investment objective.

*Short Selling Risks:* A Client will suffer a loss if the Adviser sells a security short and the value of the security rises rather than falls. It is possible that a Client’s long positions will decline in value at the same time that the value of its short positions increase, thereby increasing potential losses to the Client. Short sales expose the Client to the risk that it will be required to buy the security sold short (also known as “covering” the short position) at a time when the security has appreciated in value, thus resulting in a loss to the Client. The Client’s investment performance may also suffer if it is required to close out a short position earlier than it had intended. In addition, the Client may be subject to expenses related to short sales that are not typically associated with investing in securities directly, such as costs of borrowing. When the Client sells a security short, it must maintain a segregated amount of cash or high-grade securities equal to the margin requirement. As a result, a Client may be required to maintain high levels of cash or other liquid assets. The need to maintain cash or other liquid assets in segregated accounts could limit the Client’s ability to pursue other opportunities as they arise. These expenses may negatively impact the performance of the Client. Short positions introduce more risk to the Client than long positions (purchases) because the maximum sustainable loss on a security purchased

(held long) is limited to the amount paid for the security plus the transaction costs, whereas there is no maximum attainable price of the shorted security. Therefore, in theory, securities sold short have unlimited risk.

*Concentration or Non-Diversification Risk:* Although the Adviser strives for industry diversification in the portfolios it actively manages, Client accounts may become concentrated if a large percentage of corporate events are concentrated within one industry over a given period of time. During such a period of concentration, a Client's account may be subject to greater volatility with respect to its portfolio securities than an account that is more broadly diversified. Some industries have particular risks that may not affect other industries. Moreover, a Client account that concentrates investments in a smaller number of issuers will have a greater risk of loss from developments that negatively affect those issuers than a Client account that invests in, or more equally across, a greater number of issuers.

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

*Market Risk:* The securities markets are volatile and market prices may decline generally. Securities fluctuate in price, sometimes rapidly or unpredictably, based on changes in a company's financial condition and overall market and economic conditions, such as real or perceived adverse economic or political conditions, inflation, changes in interest or currency rates, lack of liquidity in the markets, or adverse investor sentiment.

*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. Illiquid securities may also be difficult to value. Market liquidity may deteriorate, resulting in a holding that was previously liquid becoming illiquid. If the Adviser is forced to sell an illiquid asset to meet redemption requests or other cash needs, the Adviser may be forced to sell at a loss or at a price lower than the Adviser believes is appropriate. If a deteriorating security is unable to be sold because the market is illiquid, losses may be magnified. From time to time, the Adviser may invest in restricted securities. The Adviser may not be able to sell these securities for a period of time (e.g., during a "lock-up period"), or may only be able to sell the securities in privately negotiated transactions. Investments in restricted and illiquid securities may restrict the Adviser's ability to dispose of investments in a timely fashion and for a fair price as well as to take advantage of other market opportunities.

*Equity Risk:* Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. Preferred stocks are subject to the risk that the dividend on the stock may be changed or omitted by the issuer, and that participation in the growth of an issuer may be limited. Values of the shares of common and preferred stock are based on the market's perceived value and may not reflect the actual earnings or book value of a company.

*Foreign Securities Risk:* The securities of foreign issuers may be less liquid and more volatile than securities of comparable United States (“U.S.”) issuers. Transaction costs may be higher in foreign countries than in the U.S. The U.S. dollar value of foreign securities traded in foreign currencies (and any dividends and interest earned) held by a Client may be affected favorably or unfavorably by changes in foreign currency exchange rates. Foreign governments and economies often are less stable and foreign companies may not be subject to the same regulatory requirements and accounting, auditing, and financial reporting standards of U.S. companies. As a consequence, there may be less publicly available information about such companies, which may negatively affect the value of foreign securities held by the Client.

*Small and Medium Capitalization Securities Risk:* Securities issued by small and medium capitalization companies tend to be less liquid and more volatile than stocks of companies with relatively large market capitalizations. Securities of small and medium capitalization companies may be more vulnerable to adverse business or economic events than larger, more established companies. In particular, these small and medium sized companies may have limited product lines, markets and financial resources, and may depend upon a relatively small management group.

*Hedging Transaction Risks:* 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.

*Derivatives Risks:* A derivative instrument (such as a forward contract, option, or swap contract) typically involves leverage and provides exposure to potential gain or loss from a change in the market price of the underlying asset (or a basket of assets or an index) in a notional amount that exceeds the amount of cash or assets required to establish or maintain the derivative instrument. Adverse changes in the value or price of the underlying asset (or basket of assets or index), which a Client may not directly own, can result in a loss to the Client substantially greater than the amount invested in the derivative itself. The use of derivative instruments also exposes a Client to additional transaction costs and risks, such as heightened counterparty risks, reduced liquidity, and ineffectiveness of hedging.

*Swap Risks:* In a standard “swap” transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. Certain categories of swap agreements often have terms of greater than seven days and may be considered illiquid. Moreover, a Client bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. New and additional government regulation of the swap market could result in higher costs and expenses to a Client and could adversely affect the Adviser’s ability,



among other things, to terminate existing swap agreements or to realize amounts to be received under such agreements.

***Options Risk:*** Options transactions involve special risks that may make it difficult or impossible to close a position when the Adviser desires. These risks include possible imperfect correlation between the price movements of the option and the underlying security; the potential lack of a liquid secondary market at any particular time; and possible price fluctuation limits. In addition, the option activities of a Client account may affect its portfolio turnover rate and the amount of brokerage commissions paid by the Client.

***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. If the creditworthiness of the counterparty declines, a Client may not receive payments owed under the contract, or such payments may be delayed and the value of agreements with the counterparty can be expected to decline, potentially resulting in losses to the Client.

***Leverage Risk:*** 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.

***Credit Risks:*** Certain investments are subject to the risk that a creditor, including a derivatives counterparty, will be unable to make interest or principal payments when due, causing a default and/or loss. The Adviser may invest in convertible and non-convertible debt securities, including high yield debt securities, also known as “junk bonds.” Investments in junk bonds are subject to greater credit risks than securities with credit ratings above investment grade and have a greater risk of default than investment grade debt securities. Junk bonds are less sensitive to interest rate changes than higher credit quality instruments and generally are more sensitive to adverse economic changes or individual corporate developments.

***Interest Rate Risk:*** Prices of debt securities and preferred stocks tend to move inversely with changes in interest rates. When interest rates fall, the market value of the respective debt securities and preferred securities usually increases. Conversely, when interest rates rise, the market value of the respective debt securities and preferred securities usually declines.

***Credit Default Swap Risk:*** 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.

***Convertible Security Risk:*** Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. Because convertible securities are higher in the

firm's capital structure than equity, 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.

*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 equity securities, limited voting rights and sensitivity to interest-rate changes.

*Investment Company and ETF Risk:* Certain Client accounts may invest in shares of investment companies, including ETFs, to gain exposure to certain asset classes or for other purposes. Investing in investment companies generally carries the same risks as investing directly in their underlying assets, but also carries additional expenses in the form of management fees, distribution fees, shareholder services fees, and/or other fees and expenses imposed or incurred by the investment companies, with a proportionate share borne by investors. Performance will be reduced by these costs and other expenses, which Clients typically pay in addition to the Adviser's advisory fees. Performance of Client accounts investing in investment companies could be lower than if the accounts invested directly in the securities held in the investment companies.

Unlike shares of traditional mutual funds, shares of ETFs are traded on an exchange throughout a trading day and bought and sold based on market values and not at net asset value ("NAV"). For this reason, shares could trade either at a premium or discount to NAV. A Client will pay brokerage commissions in connection with the purchase and sale of shares of ETFs. An ETF may not replicate exactly the performance of the benchmark index it seeks to track for a number of reasons, including transaction costs incurred by the ETF, the temporary unavailability of certain index securities in the secondary market, or discrepancies between the ETF and the index with respect to the weighting of securities or the number of securities held.

*Currency Risks:* Clients may hold assets denominated in currencies other than U.S. 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. Adverse changes in exchange rates may erode or reverse any gains produced by foreign currency-denominated investments and may widen any losses. The Adviser may, but is not required to, seek to reduce currency risk by hedging part or all of a Client's exposure to various foreign currencies. The return of the forward currency contracts and currency futures contracts utilized for currency hedging may not perfectly offset the actual fluctuations of the foreign currencies relative to the U.S. dollar and may prevent a Client from realizing gains from an increase in the value of the currency. In addition to currency risk, currency forward/futures contracts may be susceptible to credit risk and other risks.

*Temporary Investment/Cash Management Risk:* The Adviser may take temporary defensive positions in response to adverse market, economic, political or other conditions. If such conditions exist, the Adviser may invest, on a temporary basis, a substantial portion of its assets in cash or cash equivalents, including money market funds, money market instruments such as Treasury bills and other short term obligations of the U.S. Government, its agencies or

instrumentalities, prime commercial paper, and repurchase agreements for the above securities. To the extent the Adviser invests in these temporary investments, a Client may not achieve its investment objective.

*Large Shareholder Risk:* An investor in a fund managed by the Adviser may experience adverse effects when certain large shareholders purchase or redeem large amounts of shares of the fund. Such large shareholder redemptions may cause the fund to sell its securities at times when the Adviser would not otherwise do so, which may negatively impact the fund's NAV and liquidity. In addition, a large redemption could result in a fund's current expenses being allocated over a smaller asset base, leading to an increase in the fund's expense ratio. Similarly, large share purchases may adversely affect a fund's performance to the extent that the fund is delayed in investing new cash and is required to maintain a larger cash position than it ordinarily would.

*When-Issued, Forward Commitments and Delayed Settlement Risk:* Securities issued on a when-issued, forward commitment, or delayed delivery basis involve the risk that the security the Adviser buys will lose value prior to its delivery. There also is the risk that the security will not be issued or that the other party to the transaction will not meet its obligation. If this occurs, a Client may lose both the investment opportunity for the assets that were set aside to pay for the security and any gain in the security's price.

*IPO Risk:* On rare occasion, the Adviser may purchase securities of companies that are offered pursuant to an IPO. The risk exists that the market value of IPO shares will fluctuate considerably due to factors such as the absence of a prior public market, unseasoned trading, the small number of shares available for trading and limited information about the issuer. The purchase of IPO shares may involve high transaction costs. IPO shares are subject to market risk and liquidity risk.

*Special Purpose Acquisition Companies Risk:* The Adviser may invest in the common stock of and other interests (e.g., warrants) in special purpose acquisition companies or similar special purpose entities that pool funds to seek potential acquisition opportunities (collectively, "SPACs"). A SPAC investment typically represents an investment in a special purpose vehicle that seeks to identify and effect an acquisition of, or merger with, an operating company in a particular industry or sector. During the period when management of the SPAC seeks to identify a potential acquisition or merger target, typically most of the capital raised for that purpose (less a portion retained to cover expenses) is invested in income-producing investments. The Adviser may invest in SPACs for a variety of investment purposes, including to achieve income. Some SPACs provide the opportunity for common shareholders to have some or all of their shares redeemed by the SPAC at or around the time a proposed merger or acquisition is expected to occur. The Adviser may sell its investments in SPACs at any time, including before, at or after the time of a merger or acquisition.

*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.

*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.

*Legal and Regulatory Risk:* The financial services industry is highly regulated and constantly evolving. Changes to regulations may impede the Adviser's ability to pursue its investment strategies and/or increase the costs of implementing such strategies. The Adviser cannot predict the impact or effect, if any, of future regulatory reform on the investment strategies or products the Adviser currently manages or services the Adviser currently provides.

*Cybersecurity Risk:* The Adviser 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 the Adviser 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.

*Business Disruption Risk:* The Adviser has prepared a business continuity/disaster recovery plan and has successfully performed disaster recovery testing relating to its investment process, systems and applications. These procedures are regularly reviewed and enhanced. In the event of a catastrophic event, resulting in the death or disability of a group of the Adviser's key employees, the Adviser may not be able to adhere to the recovery timeline that it has outlined for business recovery, including the provision of investment advisory services. In the event of a material business disruption, the Adviser intends to notify its Clients as soon as is reasonably practicable.

*Epidemic or Serious Public Health Event Risk:* The Adviser's business may be affected by outbreaks of an infectious disease, pandemic, or other serious public health concern, including diseases such as severe acute respiratory syndrome, avian influenza, H1N1, and most recently, the coronavirus (COVID-19). Such events have the potential to significantly adversely affect or cause uncertainty in financial markets and businesses, including the Adviser's business, and may adversely affect the performance of the global economy, including causing market volatility,

market and business uncertainty and closures, supply chain and travel interruptions, the need for employees and vendors to work at external locations, and extensive medical absences. Any of the foregoing may therefore materially adversely affect the performance of the Adviser and its personnel, related persons, and/or Client accounts, and their respective investment activities. The Adviser has policies and procedures to address unknown situations, but because such an event may create significant market and business uncertainties and disruptions, the Adviser cannot predict the likelihood of such epidemics or serious public health events occurring in the future nor their effect.

For a description of risks associated with any of the funds advised or sub-advised by the Adviser, please refer to the applicable fund's prospectus and Statement of Additional Information. For a description of risks associated with other pooled investment vehicles advised by the Adviser, please refer to the offering materials for that fund.

Water Island has implemented various risk controls in Client account portfolios and monitoring policies and procedures in an 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 1940 Act. 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 broker-dealers 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, Senior Managing Partner, and Eric Casadei, Head of Investor Relations, each a member of Water Island's Management Committee, are registered representatives of the distributor of The Arbitrage Funds (ALPS Distributors Inc.). Neither the Adviser, nor any of its management persons other than Ms. Chew and Mr. Casadei, 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 seven affiliates: Water Island Capital Partners GP LLC, Water Island Capital Partners LP, Water Island Capital U.K. Limited, Water Island Holdings, LLC, Water Island LevArb GP, LLC, Water Island Merger Arbitrage Institutional Commingled GP, LLC, and Water Island Indices LLC.

Water Island Capital Partners GP LLC is a special purpose vehicle that serves as the general partner of Water Island Capital Partners LP, which owns Water Island Capital, 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 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, a Delaware limited partnership. 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 both Water Island Merger Arbitrage Institutional Commingled Master Fund, LP (the “Master Fund”), a Cayman Island exempted limited partnership, and Water Island Merger Arbitrage Institutional Commingled Fund, LP (the “Feeder Fund”), a Delaware limited partnership. The Feeder Fund and Master Fund are part of a master-feeder arrangement. Water Island Merger Arbitrage Institutional Commingled GP, LLC is under common control with the Adviser.

Water Island Indices LLC owns and maintains certain indexes and associated intellectual property. Water Island Indices LLC has granted a license to the indexes and associated intellectual property to Water Island, and Water Island has sublicensed its rights thereunder to AltShares Trust, for the right to use the indexes and intellectual property in connection with the establishment and operation of the ETF offered by AltShares Trust. Water Island Indices LLC is an affiliate under common control with the Adviser.

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

### Code of Ethics and Personal Trading

As part of an overall internal compliance program, and pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), Water Island has adopted a Code of Ethics. The Code of Ethics is based on the principle that Water Island owes a fiduciary duty to its Clients. The Code of Ethics emphasizes that Water Island’s employees must avoid activities, interests and relationships that might present a conflict of interest or the appearance of a conflict of interest with Water Island’s Clients or otherwise interfere with Water Island’s ability to make decisions in the best interests of Clients. The Code of Ethics 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.

Water Island’s employees may not take personal advantage of any opportunity properly belonging to a Client. 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 Adviser’s Chief Compliance Officer (“CCO”) and obtain approval prior to making the investment in a manner consistent with Water Island’s duties to its Clients. The Code of Ethics also imposes restrictions and reporting requirements on employee personal securities transactions and accounts, as described below.

Water Island’s portfolio managers and other employees may have beneficial ownership of holdings in personal accounts that are the same or similar to those held in client accounts. Water Island’s employees are permitted to trade for their personal accounts in securities which are recommended, purchased or sold for Clients under limited circumstances. To help manage this inherent conflict of interest, the Code of Ethics limits trading by employees to ensure that Clients’ interests are placed ahead of the Adviser’s or employees’ personal interests. The Code of Ethics requires Water Island’s Access Persons, among other things, to:

- Disclose personal brokerage accounts and holdings (except for securities that are exempted from the reporting requirements pursuant to Rule 204A-1(e)(10) under the Advisers Act) to Compliance, including any accounts in which they directly or indirectly have beneficial ownership or control (such as joint accounts and accounts of immediate family members residing in the employee’s household);
- Instruct their brokers to provide Compliance with electronic feeds of holdings and trading activity (or if otherwise allowed by Compliance, provide periodic account statements evidencing such information);
- Obtain approval from Compliance prior to executing reportable securities transactions in personal brokerage accounts (certain exclusions apply);

- File a quarterly transaction report containing information about reportable securities transactions in personal brokerage accounts;
- File an annual holdings report containing information about holdings of reportable securities;
- Confirm annually that they have read, understood and have complied with the Code of Ethics; and
- Report any violation or potential violation of the Code of Ethics to Compliance.

The Code of Ethics also contains additional restrictions regarding personal trading activity, including various restrictions on trading reportable securities that are held or being traded in client accounts and a minimum 30-day holding period.

In addition to restrictions and requirements relating to personal trading, the Code of Ethics also includes provisions that address other areas where the potential for conflicts of interest exist, such as gifts and entertainment that may be given to or received by employees, participation in outside business activities, and political contributions.

The Adviser's Compliance department conducts reviews of the foregoing for compliance with its policies and procedures.

The Code of Ethics is available to any Client or prospective client upon request by email at [compliance@wicfunds.com](mailto:compliance@wicfunds.com) or by calling 646-727-4463.

#### Investing and Trading in Securities Recommended to Clients

As noted above, under limited circumstances employees or their family members may purchase, hold or sell securities at or around the same time that the Adviser purchases, holds or sells the same securities for Client accounts. The personal actions by these individuals could also be different in nature or timing from the advice and actions taken by the Adviser for Client accounts.

Employees may hold a beneficial interest in investment products advised or sub-advised by the Adviser, including mutual funds, ETFs and other pooled investment vehicles. In these cases, employees may have direct knowledge of current fund holdings, which is non-public information.

While these activities may create potential conflicts of interest between the Adviser, its employees and Clients, Water Island believes that its Code of Ethics, combined with its other policies and procedures, are reasonably designed to address these matters.

Despite the measures outlined above, Clients should be aware that no set of policies and procedures can anticipate or relieve all potential conflicts of interest. If an unanticipated conflict of interest should arise, Water Island will seek to resolve the situation in the best interests of its Clients.



## Participation or Interest in Other Client Transactions

As described in Item 5 of this Brochure, from time to time, one or more proprietary funds managed by the Adviser may invest its assets in one or more other funds offered by the Adviser or a related person to gain exposure to its investments. Investors in such proprietary funds will not be charged duplicate advisory fees. However, the proprietary funds will indirectly bear the fees and expenses of any affiliated funds they invest in, as is the case with other acquired funds, to the extent such fees and expenses are payable.

As described in Item 6 of this Brochure, Water Island may from time to time establish “pilot” or “incubator” funds for the purpose of testing or seeding proposed investment strategies or products prior to accepting assets from outside investors. Typically, Water Island or a related person supplies the funding for these accounts. Employees of Water Island may also invest in certain pilot accounts or proprietary funds. Water Island may waive or charge lower management fees (including performance fees) to current and former employees and their family members who invest in pooled investment vehicles for which the Adviser or a related person acts as general partner or managing member. Water Island has implemented certain policies and procedures to mitigate potential conflicts of interest relating to pilot accounts and to ensure fair and equitable treatment of all Client accounts, as described in item 6 of this Brochure.

In the Adviser’s role as adviser or sub-adviser for various registered investment companies, situations may arise in which trades are executed with brokers that may distribute the funds that the Adviser manages. These trades, like all other trades executed for the Adviser’s Clients, are executed solely with the belief that the broker can provide best execution. “Quid pro quo” arrangements that would direct trades to brokers in exchange for distribution or other services are expressly forbidden by Adviser policy.

The Adviser, or management of funds (including registered investment companies and privately offered pooled investment vehicles) managed by the Adviser who are employees of the Adviser, may have a conflict of interest with respect to the allocation of expenses incurred by the Adviser’s Clients (e.g., the expenses associated with a shared service provider). The Adviser may have an incentive to allocate expenses disproportionately to Clients who will bear those expenses as compared to Clients where the Adviser may bear those costs due to, for example, expense limitation agreements in place. To the extent the Adviser has discretion in the allocation of expenses shared across Clients, the Adviser seeks to allocate those expenses in a fair and equitable manner by, for example, utilizing itemized invoices provided by service providers (where available), allocating shared expenses based on average net assets of the Clients, or by such other methodology or methodologies as the Adviser determines are fair and equitable to its Clients. The allocation of expenses with respect to the registered investment companies that the Adviser advises or sub-advises are subject to the review and oversight of the Boards of Trustees of those registered investment companies.

## Item 12 – Brokerage Practices

### Best Execution

Unless otherwise directed by Clients, Water Island has the discretion to choose broker-dealers to execute trades for Client accounts and to determine the commissions paid to them. Broker-dealers are selected for trading in Client accounts based on their ability to achieve the best possible result reasonably available for each Client for each transaction, or “best execution.” Best execution is not necessarily measured by the circumstances surrounding a single transaction but may be measured over time through multiple transactions.

Water Island uses a range of strategies designed to manage transaction costs, which consist of explicit costs, such as commissions, fees, and taxes, as well as implicit costs, also known as market impact. To best preserve investment returns, Water Island seeks to minimize the total transaction costs of trading. Water Island manages explicit costs of trading by negotiating competitive commission rates. Implicit costs are managed through careful choice of execution strategies, real-time trade management and detailed post-trade analysis.

### Factors Considered in the Selection of Broker-Dealers

While execution price and commission rates are often important factors in selecting a broker-dealer, the Adviser also considers a number of qualitative factors when evaluating a broker-dealer’s ability to deliver best execution. These other factors may include:

- Reliability, integrity and accuracy of the broker-dealer;
- Execution capability, considering the promptness of execution, the ability to execute the full size of the trade and the nature and difficulty of the trade in view of the order’s characteristics (i.e., the size, difficulty of execution);
- Specialized expertise, considering the security or asset class (i.e., complexity, familiarity);
- Depth of services provided, including back office and processing capabilities;
- Confidentiality;
- Responsiveness to the Adviser;
- Financial condition of the broker-dealer;
- Research capabilities and success of prior research recommendations; and
- Value of research and brokerage products and services provided by such broker-dealers.

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 broker-dealers.

The Adviser maintains a list of approved broker-dealers (the “Approved Broker List”) that may execute trades on behalf of clients. Before the Adviser begins trading with a broker-dealer, the

broker-dealer is evaluated to verify that it meets the requirements of the Adviser's broker approval procedures. Traders are prohibited from executing transactions with any broker that is not on the Adviser's Approved Broker List. The Adviser's Brokerage Committee periodically reviews the execution quality of the brokers on the Approved Broker List. Broker-dealers can be removed from the Approved Broker List at any time for failure to meet the Adviser's standards.

#### 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," if consistent with the safe harbor provided under Section 28(e) of the Securities Exchange Act of 1934 (the "1934 Act"). Permitted products and services include, among other things, proprietary research from broker-dealers and research prepared by third parties. Research services may include, among other things, research concerning market, economic and financial data, particular aspects of economics or the economy in general, statistical information, data or pricing regarding securities, financial publications, electronic market quotations, analyses concerning specific securities, companies, industries or sectors, and market, economic and financial studies and forecasts. Brokerage services may be paid with soft dollars only if the service takes place between the time the trade is placed and the settlement of the trade.

Clients may pay commissions higher than those obtainable from other broker-dealers in return for these products and services. When the Adviser uses Client brokerage commissions to obtain research or other eligible products or services, it receives a benefit because it does not have to produce or use its own funds ("hard dollars") to pay for the research, products 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, products or other services, rather than on the Client's interest in receiving the most favorable execution.

The Adviser participates in a commission sharing arrangement. Using a commission sharing arrangement enables the Adviser to achieve greater transparency of execution and research costs, improve its ability to assign value to research products and services that are received from broker-dealers and obtain additional research while still achieving best execution. Under the Adviser's commission sharing arrangement, selected broker-dealers execute the Adviser's trade orders and are paid a gross commission. Based on pre-negotiated percentages, one portion of this commission is designated as payment for execution, with the other portion designated for research credit. The research portion is paid out by the executing broker-dealer to a commission sharing aggregator, which consolidates research credits to pay research providers under the Adviser's direction.

The Adviser believes that its use of a commission sharing arrangement with numerous participating broker-dealers minimizes the conflict of interest between pursuing best execution for the Adviser's Clients and receiving research and other products and services. This is in contrast with a traditional soft dollar arrangement in which there would be more incentive to use a particular broker-dealer.

Some broker-dealers may provide the Adviser with “mixed-use” products or services, which are useful both in the investment decision-making process and in administrative or other non-investment decision-making functions. In these cases, the Adviser will utilize soft dollars to pay for the portion of the products or services used in the investment decision-making process while using its own funds (“hard dollars”) to pay for the portion that serves other non-eligible purposes. The Adviser determines the appropriate allocation of hard and soft dollars based on a good faith estimate of how the product or service will be used.

Water Island does not allocate the relative costs or benefits of the products and services obtained through soft dollar arrangements to individual Client accounts. Eligible research obtained with soft dollars generated by one Client may be used for the benefit of other Clients. However, the Adviser believes that the products and services in aggregate generally benefit its Clients as a whole, not just those paying the brokerage commissions. In addition, not all of the research purchased using brokerage commissions may be used by the Client accounts that paid the commissions. Eligible research obtained with soft dollars is shared with employees of Water Island UK, which provides research and execution services to Water Island pursuant to a Participating Affiliate Agreement.

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) of the 1934 Act.

It is the policy of the Adviser that trade errors are not to be resolved through soft dollar or other reciprocal arrangements with broker-dealers.

#### 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

Water Island 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 Adviser’s CCO. 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 aggregated orders, resulting in added costs for the Client and impeding the Adviser’s ability to achieve best execution. The Adviser may also not execute the same number of shares (or fill percentage) in

trades for Clients with directed brokerage versus those executed on behalf of Clients without such arrangements.

### Trade Order Aggregation and Allocation

It is expected that most orders for multiple Client accounts will be aggregated and transaction costs allocated on a pro-rata basis. Aggregation of trades allows timely and efficient execution of trades, which may reduce transaction costs. It is Water Island's policy that aggregated orders are to be allocated to eligible Clients in a fair and equitable manner. Accordingly, the Adviser's trade order 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 typically be allocated on a pro rata basis, subject to rounding to avoid odd lots or de minimis allocations.

Water Island generally bases the pro-rata allocation on each Client's order size relative to the aggregated order. Occasional exceptions may be based on factors including the following:

- Available cash in Client accounts;
- Compliance with Client-specific investment guidelines and restrictions;
- The Adviser's risk controls; and
- Rules and regulations established by an exchange, market or others.

In some situations, Water Island may not be able to or may choose not to aggregate orders for Client accounts. These situations could result from the following:

- Trades in the same security that are released to a broker-dealer or multiple broker-dealers at different times of the day;
- Trades in the same security that are released to the same broker-dealer at the same time but with different trading instructions;
- Short sales of securities where the Adviser may choose to trade with an account's designated prime broker in order to seek "best execution" or maintain a specific long-short ratio;
- Countries with market restrictions; and
- Participation in client-directed brokerage arrangements.

When trades are not aggregated, they do not typically receive the same average execution price and Client accounts may have higher market impact costs. The Adviser seeks to reduce these costs by monitoring security liquidity and limiting trading volumes.

As more fully described above under "Directed Brokerage," whenever possible, Water Island includes transactions for directed-brokerage Clients in aggregated orders.

Delays in executing trade orders and deviations from Water Island's trade allocation policy may occur from time to time due to various circumstances and are generally not considered trade errors.

#### Cross Trading

Except under rare circumstances, Water Island does not engage in cross trades, which are generally defined as the matching of buy and sell orders for the same security in different Client accounts, either internally or externally through a broker. The reason for a cross trade would be to benefit Client accounts by reducing trade execution costs. Each proposed cross trade must be reviewed and approved by Water Island's Compliance department prior to execution, achieve best execution, and comply with all regulatory requirements.

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

#### Portfolio Manager Reviews

The Adviser's portfolio management teams provide continual oversight of Clients' portfolios, monitoring and reviewing each portfolio's positions daily. In addition, portfolio management personnel periodically meet 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.

#### Risk Management Reviews

Water Island also employs a risk management process that provides independent oversight of all investment-related activity. The primary focus of the risk management process is on risk assessment of the Adviser's investments and portfolios as well as appropriate design of risk controls and risk mitigation strategies. Risk limits are actively monitored at both an individual position level and portfolio level daily.

#### Compliance Reviews

Compliance monitors most Client investment guidelines and restrictions for Client accounts on a pre- and/or post-trade basis through a software application integrated with the Adviser's order management system. The compliance application tests the rules coded for each portfolio on a pre-trade basis at order entry and on a post-trade basis nightly.

#### Client Reporting

The Adviser facilitates all required regulatory reporting to shareholders of The Arbitrage Funds and AltShares Trust. 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 Client. The information on these reports should not be considered the official record of a Client account. Water Island considers the Client's custodian the official record keeper for each account.

## **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 of this Brochure, it is the Adviser's policy not to receive any other economic benefit or compensation for providing investment advice to Clients.

The Adviser may engage in trading relationships with brokers that may have selling agreements with the distributors of The Arbitrage Funds or AltShares Trust<sup>2</sup>. However, it is the Adviser's policy that it does not consider the sale of shares of The Arbitrage Funds or AltShares Trust 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 have physical custody of funds or securities of or provide custodial services to Clients. Client assets are held with banks or registered broker-dealers that are "qualified custodians."

Cash and securities for The Arbitrage Funds and AltShares Trust are maintained with one of the Funds' custodians that have been approved by the respective Funds' Board of Trustees.

As previously noted, Water Island or a related person acts as general partner or managing member of certain pooled investment vehicles. The authority granted to managing members of limited liability companies, general partners of limited partnerships, or comparable positions held for other types of pooled investment vehicles may provide such persons or entities access to such vehicles' funds and securities. As a result, Water Island is deemed to have constructive custody of the assets of those pooled investment vehicles. Such assets are maintained with a "qualified custodian" and are audited annually by an independent public accountant registered with the Public Company Accounting Oversight Board (PCAOB). Audited financial statements are delivered to investors of the pooled investment vehicles in accordance with Rule 206(4)-2 under the Advisers Act. Investors in these 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.

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<sup>2</sup> ETF shares are purchased and sold by "authorized participants."

## **Item 16 – Investment Discretion**

Pursuant to a Client's investment advisory agreement, the Adviser typically has discretion as to the 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 Advisers Act. 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](mailto:compliance@wicfunds.com) or by calling 646-727-4463.

## **Item 18 – Financial Information**

The Adviser has no financial commitment that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to its Clients nor has it been the subject of a bankruptcy petition.