

# WESTCHESTER CAPITAL PARTNERS, LLC

Form ADV, Part 2A Brochure

ITEM 1 – COVER PAGE

## **WESTCHESTER CAPITAL PARTNERS, LLC**

**100 SUMMIT LAKE DRIVE  
VALHALLA, NY 10595**

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**March 31, 2022**

This brochure provides information about the qualifications and business practices of Westchester Capital Partners, LLC (“WCP”). If you have any questions about the contents of this brochure, please contact us at (914) 741-5600 or [compliance@mergerfund.com](mailto:compliance@mergerfund.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

WCP is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information with which you determine to hire or retain an adviser.

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

## ITEM 2 – MATERIAL CHANGES

Pursuant to SEC Rules, you will receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our business' fiscal year, which is December 31<sup>st</sup>. We may further disclose information about material changes as necessary and we will provide you with a new brochure as necessary, based on changes or new information, at any time, without charge.

Our brochure is available free of charge upon request. You can request our brochure by calling our Compliance Department at 914-741-5600, and/or emailing us at [compliance@mergerfund.com](mailto:compliance@mergerfund.com). Additional information about WCP is also available from the SEC's web site at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This brochure contains the following material changes from our last update, dated October 15, 2021:

- Item 8: We updated the description of methods of analysis, investment strategies and risk of loss to include additional detail regarding certain material risks for the investment strategy.
- Item 10: We updated our description of other financial industry activities and affiliates to include additions to such activities and affiliates.

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## ITEM 4 - ADVISORY BUSINESS

Westchester Capital Partners, LLC (“WCP”) is a wholly owned subsidiary of Virtus Partners, Inc. (“VPI”) which is wholly owned by Virtus Investments Partners, Inc. (“Virtus”). Virtus, a publicly traded firm, is singularly committed to the long-term success of individual and institutional investors, offering asset management through its affiliated managers and select subadvisers (see [www.virtus.com](http://www.virtus.com)).

WCP, an investment adviser since 1996, provides investment advice as the general partner of WCM Hudson Valley Partners, L.P., a Delaware limited partnership (“HVP”), investment adviser to WCM Merger Fund Ltd., a Cayman Islands exempt company (“LTD”), and the manager of WCM Master Trust, a Bermuda trust (the “Master Fund”), a master-feeder structure in which HVP and LTD act as feeders into the Master Fund (HVP, LTD and the Master Fund are collectively referred to as the “Funds”). The Funds engage in merger arbitrage. Merger arbitrage is an investment approach designed to profit from the successful completion of transactions typically involving the common stock, preferred stock and, occasionally, warrants of companies, which are involved in publicly announced mergers, takeovers, tender offers, leveraged buyouts, spin-offs, liquidations and other types of corporate reorganizations.

In pursuing this investment strategy, WCP will invest in the following types of securities on behalf of the Funds: equity securities of any kind, debt securities of any kind, warrants, rights, convertible securities, derivatives instruments of any kind such as options, futures, currency forwards and swaps, special purpose acquisition companies, foreign issues, investment company securities, including closed-end funds and exchange-traded funds, initial public offerings, preferred stock and other preferred securities, American depositary receipts (ADRs), real estate investment trusts (REITs) and master limited partnerships (MLPs).

WCP tailors its advisory services to the specific investment objectives, policies and restrictions, if any, of each Fund as set forth in the relevant offering circular, placing memorandum, limited partnership agreement, investment management agreement and other governing documents pertaining to each Fund (collectively, the “Fund Documents”). Investment advice is provided in respect of each Fund, and not individually to investors in the Funds. Each Fund is subject to the investment restrictions described, if applicable, in its Fund Documents.

In addition, WCP is an affiliate of Westchester Capital Management, LLC, a registered investment adviser (“WCM”). WCM is the subadviser to several affiliated mutual funds including The Merger Fund (“TMF”), The Merger Fund VL (“VL”), Virtus Westchester Event-Driven Fund (“EDF”), and Virtus Westchester Credit Event Fund (“CEF”). WCM is also subadviser to unaffiliated mutual funds including the Principal Global Multi-Strategy Fund (“GMS”), JNL/Westchester Capital Event Driven Fund (“JNL”) and JNL Multi-Manager Alternative Fund (“JARB”). JNL and JARB are each a separate series of shares of JNL Series Trust.

Roy Behren and Michael T. Shannon are Co-Presidents and Co-Chief Investment Officers of WCP and WCM.

As of December 31, 2021, WCP managed approximately \$78,709,988 in client assets on a discretionary basis and did not manage any assets on a non-discretionary basis.

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

This section describes our basic fee schedule. WCP reserves the right to negotiate all fees based on individual client considerations, including but not limited to, number and frequency of reports and client meetings, individual security investments versus common or collective funds or mutual funds, investment guidelines and restrictions, and account size. We believe that our fees are competitive with those charged by other investment advisers for comparable services, but other firms may offer similar services for lower fees.

WCP is the general partner of HVP pursuant to an Agreement of Limited Partnership of HVP, dated as of August 1, 2009, as amended, by and between WCP and HVP's limited partners (the "Partnership Agreement"). The Partnership Agreement provides that HVP will pay to WCP a cash fee (the "Management Fee"), accrued and calculated monthly and payable in arrears as of the last day of each calendar quarter. Each such quarterly payment of the Management Fee shall be equal to the sum of the Management Fee calculated for each month in such calendar quarter, which monthly calculation shall be equal to one-twelfth (1/12) of one percent (1.0%) of the net asset value of HVP calculated as set forth in the Fund Documents. In addition, WCP is entitled to an incentive allocation, which is an amount, allocated annually, equal to 20% of the Net Profits (as defined herein) of HVP, if any, during each fiscal year. "Net Profits" during a period equals the sum of net realized gains and dividends or interest plus or minus the change in unrealized gain or loss as of the end, as compared to the beginning, of the period, less brokerage commissions, other Fund expenses and management fees paid or accrued and such other expense items included under the basis of accounting used by a Fund. Pursuant to a "high water mark" provision in the Partnership Agreement, any cumulative net loss of a limited partner must be made up in full in subsequent accounting periods before WCP is entitled to an incentive allocation. In addition, a withdrawal or redemption by an investor from HVP is generally treated, for purposes of determining incentive allocations or fees, respectively, as if the date of such withdrawal or redemption were a fiscal year end. Certain investments in the Funds made by employees – including through any entity established by such employee such as trusts, charitable programs, family investment vehicles or estate planning vehicles – will typically not pay performance-based fees.

WCP is the investment adviser to LTD pursuant to an Investment Advisory Agreement, dated as of January 12, 1996, by and between WCP and LTD (the "Advisory Agreement"). The Advisory Agreement provides that WCP receives from LTD a management fee, which is payable quarterly in arrears and is accrued and calculated monthly (as of the last business day of each month) at an annual rate of 1.0% of the net asset value of LTD calculated as set forth in the Fund Documents. In addition, WCP is entitled to an incentive fee, which is an amount, accrued monthly and paid annually, equal to 20% of the Net Profits of LTD, if any, during each fiscal year. If the net asset value per share of LTD at the end of a fiscal year is lower than the net asset value per share at the end of any prior fiscal year, no incentive fee will be paid to WCP (LTD's "high water mark" provision). In addition, a withdrawal or redemption by an investor from LTD is generally treated, for purposes of determining incentive allocations or fees, respectively, as if the date of such withdrawal or redemption were a fiscal year end.

WCP is the manager of the Master Fund, the “master fund” in a master-feeder structure which also comprises HVP and LTD (as “feeders”), pursuant to a Management Agreement, dated as of May 31, 2005, as amended, by and between WCP and Winchester Global Trust Company Limited, a Bermuda corporation (“Winchester”), as trustee of the Master Fund (the “Management Agreement”). WCP does not charge any fee to the Master Fund for its services under the Management Agreement or under the Agreement and Declaration of Trust among HVP, LTD and Winchester, dated as of May 31, 2005, as amended.

WCP’s fees are generally negotiated and fixed at the time that each Fund is formed. In addition, WCP may enter into economic and/or other fee sharing arrangements with respect to one or more Funds and/or certain investors therein, the rights of which will not generally be made available to other investors.

WCP deducts management fees from clients’ assets quarterly in arrears in respect of both HVP and LTD, and receives an incentive allocation or fee directly from clients’ assets annually, in respect of both HVP and LTD.

HVP, LTD and the Master Fund pay all other expenses related to their respective operations, including legal and accounting fees, custodial fees, interest on borrowed funds, transfer taxes, brokerage commissions, finder’s fees with respect to borrowed securities, fees and expenses for consulting, research and statistical services and any extraordinary expenses such as litigation expenses. Please refer to *Item 12 - Brokerage Practices* for more information on our brokerage practices. As an investor in the Master Fund, each of HVP and LTD is also responsible for its pro rata share of the expenses of the Master Fund. There is no duplication of investment management fees, prime broker fees or administration fees, therefore to the extent that such fees are charged at the Master Fund level they are not charged at the HVP or LTD level and to the extent that such fees are charged at the HVP or LTD level they are not charged at the Master Fund level.

Subject to client imposed restrictions if any, WCP may invest or recommend investment in open-end and closed-end registered investment companies, exchange traded funds (“ETFs”) and other pooled investment vehicles. When WCP invests client assets in these investment vehicles, unless otherwise agreed and where permitted by applicable law, a Fund may bear its proportionate share of fees and expenses as an investor in the investment vehicle in addition to WCP’s investment advisory fees. The investment vehicle’s prospectus, offering documents or other disclosure documents contain a description of its fees and expenses.

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

As discussed above under *Item 5 - Fees and Compensation*, WCP charges performance-based allocations and fees. Specifically, WCP is entitled to an incentive allocation in respect of HVP and an incentive fee in respect of LTD, each of which is an amount, accrued monthly and paid annually, equal to a fixed percentage (set forth in the applicable Fund Documents) of the net profits of the applicable Fund, if any, during each fiscal year (subject to recoupment of each applicable investor’s prior cumulative net loss).

In addition, WCP’s affiliate, WCM, may enter into subadvisory agreements from time-to-time for which performance-based fees may be charged.

The fact that WCP's and WCM's portfolio managers manage accounts that are charged a performance-based fee and/or accounts that are charged an asset-based fee (and accounts that are charged fees at different rates) creates the potential for a conflict of interest, since receipt of a portion of any profits with respect to WCP-advised and WCM-advised accounts that are charged a performance-based fee (or a fee at a higher rate) could, in theory, create an incentive to favor such accounts (*e.g.*, by allocating to them the most favorable investment opportunities or by allocating more resources and time to managing those accounts). However, WCP believes that any conflicts of interest are mitigated, at least in part, for the following reasons: (i) TMF, VL, EDF, JNL, CEF, JARB, GMS and the Funds all may engage in merger arbitrage and other event-driven strategies and, in many respects, are managed in a similar fashion; (ii) WCP and WCM follow written trade allocation procedures designed to allocate securities purchases and sales among TMF, VL, EDF, JNL, CEF, JARB, GMS and the Funds in a fair and equitable manner over time; and (iii) all allocations are subject to review by WCP's and WCM's Chief Compliance Officer.

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

WCP provides investment advice to pooled investment vehicles. The minimum purchase price of a limited partnership interest in HVP is \$500,000. However, WCP reserves the right to accept a subscription of less than \$500,000. All investors in HVP must be "qualified purchasers" within the meaning of the Investment Company Act of 1940, as amended (the "1940 Act").

Each investor in LTD generally must subscribe for a minimum of \$500,000 worth of redeemable shares of LTD. An existing shareholder subscribing for additional shares must subscribe for a minimum of \$100,000 worth of shares. LTD's directors reserve the right to waive or change these minimums at any time subject to an absolute minimum initial subscription of \$100,000, as required by the Irish Stock Exchange and by the laws of the Cayman Islands.

Each investor in LTD generally must not be a "U.S. Person," as defined in Regulation S under the Securities Act of 1933, other than a Permitted U.S. Person, which generally means a U.S. Person, other than a registered investment company, that is subject to the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or is a tax-exempt trust described in Section 401(a) of the United States Internal Revenue Code of 1986, as amended, an Individual Retirement Account ("IRA"), or is otherwise exempt from payment of U.S. Federal income tax and is a qualified purchaser. Each investor in LTD additionally must represent and warrant to LTD that, among other things, it is able to acquire shares without violating applicable laws and that it is a sophisticated investor as defined by the Irish Stock Exchange.

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

Under normal market conditions, the Funds invest principally in the common stock, preferred stock, corporate debt, derivatives, total return swaps and/or contracts for differences and, occasionally, warrants of companies which are involved in publicly-announced mergers, takeovers, tender offers, leveraged buyouts, spin-offs, liquidations and other corporate reorganizations. Merger arbitrage is a highly specialized investment approach generally designed to profit from the successful completion of such transactions. Although a variety of strategies may

be employed depending upon the nature of the reorganizations selected for investment, the most common merger-arbitrage activity involves purchasing the shares of an announced acquisition target at a discount to their expected value upon completion of the acquisition. The size of this discount, known as the arbitrage “spread,” may represent a Fund’s potential profit on such an investment. Because WCP seeks to profit from the “spread” described above upon the completion of a merger, takeover or other reorganization rather than the performance of the market overall or any one issuer, it believes the merger-arbitrage strategy is designed to provide performance that normally has relatively low correlation with the performance of stock markets.

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

In pursuing a Fund’s investment objective and strategies, a Fund may invest in U.S. and foreign securities without limit and may invest in companies of any market capitalization. The Funds engage in active trading and may invest a portion of their assets to seek short-term capital appreciation.

A Fund may invest in other investment companies, including closed-end funds and ETFs. To the extent that a Fund invests in shares of another investment company or ETF, it bears its proportionate share of the expenses of the underlying investment company or ETF and is subject to the risks of the underlying investment company’s or ETF’s investments.

Investing in securities involves risk of loss that clients should be prepared to bear. The investment performance and the success of any investment strategy or particular investment can never be predicted or guaranteed, and the value of a client’s investment will fluctuate due to market conditions and other factors. Many factors may affect the Funds’ net asset values and/or performance, including the following:

#### Merger and Event-Driven Risk

A principal risk associated with merger-arbitrage and event-driven investing is that WCP’s evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue or other event, will prove incorrect and that a Fund’s return on the investment will be negative. Even if WCP’s judgment regarding the likelihood of a specific outcome proves correct, the expected event may be delayed or completed on terms other than those originally proposed, which may cause a Fund to lose money or fail to achieve a desired rate of return. The success of a Fund’s merger-arbitrage strategy also depends on the overall volume of merger activity, which has historically been cyclical in nature. During periods when merger activity is low, it may be difficult or impossible to identify opportunities for profit or to identify a sufficient number of such opportunities to provide diversification among potential merger transactions. If WCP determines that a proposed acquisition or other corporate reorganization is likely to be consummated, a Fund



may purchase the target company's securities at prices often only slightly below the value expected to be paid or exchanged for such securities upon completion of the reorganization (and often substantially above the prices at which such securities traded immediately prior to the announcement of the proposed transaction). If the reorganization appears unlikely to be consummated or in fact is not consummated or is delayed, the market price of the target's securities may decline sharply. Similarly, if a Fund has sold short the acquirer's securities in anticipation of covering the short position by delivery of identical securities received in the exchange, the failure of the transaction to be consummated may force a Fund to cover its short position in the open market at a price higher than that at which it sold short, with a resulting loss. In addition, if a Fund purchases the target's securities at prices above the offer price because WCP determines that the offer is likely to be increased or a different and higher offer made, such purchases may be subject to a greater degree of risk.

If, in a transaction in which a Fund has sold the target's securities short (often at prices significantly below the announced offer price for such securities) based on a determination that the transaction is unlikely to be consummated, and the transaction, in fact, is consummated at the announced price or higher, a Fund may suffer substantial losses if it is forced to cover the short position in the open market at a higher price. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed at reasonable costs. The Funds may invest in hostile tender offers, proposed leveraged buyouts and other similar situations. Those types of transactions have a greater risk that the proposed transaction will not be completed successfully and, consequently, a greater risk of loss. A failed transaction or reorganization may occur for a number of reasons, including failure to get shareholder approval or failure to get regulatory approval. The Funds may incur significant losses unwinding their merger-arbitrage and event-driven positions in the event that a proposed merger or other corporate event does not occur as expected by WCP or WCP determines the position no longer represents an attractive investment opportunity.

Acquisitions involving U.S. banks, savings and loan institutions, insurance companies, utilities, broadcasters and other regulated companies must be approved by the appropriate federal and/or state agencies. Also, certain of the mergers in which the Funds invest are subject to the pre-merger-notification and waiting-period requirements of the Hart-Scott-Rodino Antitrust Improvements Act and review by the U.S. Federal Trade Commission or the Antitrust Division of the Department of Justice, either of which may seek to challenge any given transaction. In the case of exchange offers, the securities to be issued must be registered under the Securities Act before the transaction can be completed.

If a Fund makes purchases in anticipation of an acquisition attempt or other reorganization that does not in fact occur, the Fund may be forced to sell its position at a loss. Further, when securities are purchased in anticipation of a reorganization, a substantial period of time may elapse before the announcement of the reorganization and its subsequent completion. During this period, a Fund may incur significant interest costs on funds borrowed to maintain its position.

With respect to a Fund's investments in liquidations, including liquidations stemming from bankruptcy proceedings, there exists the risk that the reorganization either will be unsuccessful (e.g., for failure to obtain the requisite approvals), will be delayed (e.g., until various liabilities,

actual or contingent, have been satisfied) or will result in a distribution of cash or securities whose value is less than the price paid by a Fund for the securities in respect of which the distribution was made.

The Funds generally expect to employ strategies that are not designed to benefit from general market appreciation in the equity markets or improved economic conditions in the global economy. Indeed, WCP may seek to limit the Funds' investment exposure to the markets generally. Accordingly, the Funds may underperform the markets under certain market conditions, such as periods when there is rapid appreciation in the markets.

### Hedging Transactions Risk

The success of a Fund's hedging strategy will be subject to WCP'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. Since the characteristics of many securities change as markets change or time passes, the success of a Fund's hedging strategy will also be subject to WCP's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner.

Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of those portfolio positions or prevent losses if the values of those positions decline. Rather, hedging typically establishes other positions designed to gain from those same declines, thus seeking to moderate the decline in the portfolio position's value. For a variety of reasons, WCP may not establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a Fund from achieving the intended hedge or expose the Fund to risk of loss. In addition, it is not possible to hedge fully or perfectly against any risk, and hedging entails its own costs. WCP may determine, in its sole discretion, not to hedge against certain risks and certain risks may exist that cannot be hedged. Furthermore, WCP may not anticipate a particular risk so as to hedge against it effectively. Hedging transactions also limit the opportunity for gain if the value of a hedged portfolio position should increase.

Hedging activities involve additional expenses and the risk of loss when a hedge is unwound, especially in the case of reorganizations that are terminated. There is no assurance that any such hedging techniques will be employed by WCP on behalf of a Fund or that any of those employed will be successful.

### Management Risk

The Funds are subject to management risk because they are actively managed investment portfolios. WCP's judgments about the attractiveness and potential appreciation of a security may prove to be inaccurate and may not produce the desired results. WCP will apply its investment techniques and risk analyses in making investment decisions for a Fund, but there is no guarantee that its decisions will produce the intended result or that its evaluation of the likelihood that a specific merger or reorganization will be completed as expected will prove correct.

With respect to the Funds, the exercise of discretion in valuation by WCP gives rise to conflicts of interest, as valuations impact WCP's track record and the performance allocation in certain Funds is calculated, in part, on these valuations. Further, these valuations affect the amount of performance fees and calculation of the Management Fee. As a result, it is possible for there to be situations where the WCP is incentivized to influence or manipulate the valuation of investments.

### Portfolio Turnover Risk

The frequency of a Fund's transactions will vary from year to year, though merger arbitrage portfolios typically have higher turnover rates than portfolios of typical long-only funds. Increased portfolio turnover will result in higher brokerage commissions, dealer mark-ups and other transaction costs and may result in increased taxable costs to Fund investors, including as a result of the recognition of short-term capital gains taxable to investors at ordinary income rates. Higher costs associated with increased portfolio turnover may reduce a Fund's performance. The Funds normally expect to engage in active and frequent trading and expects to have a high rate of portfolio turnover (e.g., greater than 100% annually).

### Derivatives Risk

Derivatives typically have a return tied to a formula based upon an interest rate, index, price of a security, currency exchange rate or other reference asset. Derivatives may also be embedded in securities such as convertibles, which typically include a call option on the issuer's common stock. Derivatives in which a Fund may invest include futures, non-U.S. currency contracts, swap contracts, reverse repurchase agreements and other over-the-counter ("OTC") contracts. Derivatives, such as options, swaps, futures and forward contracts, may not produce the desired investment results because, for example, they are not perfect substitutes for the underlying securities, indices or currencies from which they are derived. Derivatives also may create leverage which will amplify the effect of their performance on a Fund and may produce significant losses. When WCP causes a Fund to enter into derivatives transactions, an investment in a Fund may be more volatile than investments in other funds.

Derivatives involve special risks, including: (1) the risk that interest rates, securities prices and currency markets will not move in the direction that a portfolio manager anticipates; (2) imperfect correlation between the price of derivative instruments and movements in the prices of the securities, interest rates or currencies being hedged; (3) the fact that skills needed to use these strategies are different than those needed to select portfolio securities; (4) the possible absence of a liquid secondary market for any particular instrument and possible exchange imposed price fluctuation limits, either of which may make it difficult or impossible to close out a position when desired; (5) the risk that adverse price movements in an instrument can result in a loss substantially greater than a Fund's initial investment in that instrument (in some cases, the potential loss is unlimited); (6) particularly in the case of privately-negotiated instruments, the risk that the counterparty will not perform its obligations, or that penalties could be incurred for positions held less than the required minimum holding period; and (7) the inability to close out certain positions to avoid losses, exposing a Fund to greater potential risk of loss. In addition, the use of derivatives for non-hedging purposes is considered a speculative practice. There is the possibility that

derivative strategies will not be used or that ineffective implementation of derivative strategies or unusual market conditions could result in significant losses to a Fund.

In particular, a Fund's use of OTC derivatives exposes it to the risk that the counterparties will be unable or unwilling to make timely settlement payments or otherwise honor their obligations. An OTC derivatives contract typically can be closed only with the consent of the other party to the contract. If the counterparty defaults, a Fund will have contractual remedies but may not be able to enforce them. Because the contract for each OTC derivative is individually negotiated, the counterparty may interpret contractual terms (e.g., the definition of default) differently than a Fund, and if it does, the Fund may decide not to pursue its claims against the counterparty to avoid incurring the cost and unpredictability of legal proceedings. A Fund, therefore, may be unable to obtain payments WCP believes are owed to it under OTC derivatives contracts, or those payments may be delayed or made only after the Fund has incurred the costs of litigation.

A Fund may invest in derivatives that (i) do not require the counterparty to post collateral (including, but not limited to, non-U.S. currency forwards), (ii) require collateral but that do not provide for the Fund's security interest in it to be perfected, (iii) require a significant upfront deposit by the Fund unrelated to the derivative's intrinsic value (Initial Margin), or (iv) do not require that collateral be regularly marked-to-market. When a counterparty's obligations are not fully secured by collateral, the Fund runs the risk of having limited recourse if the counterparty defaults. Even when obligations are required by contract to be collateralized, there is sometimes a lag between the day the collateral is called for and the day the Fund receives it. A Fund may invest in derivatives with a limited number of counterparties, and events affecting the creditworthiness of any of those counterparties may have a pronounced effect on the Fund. Derivatives risk is particularly acute in environments (like those of 2008) in which financial services firms are exposed to systemic risks of the type evidenced by the insolvency of Lehman Brothers and subsequent market disruptions. In addition, during those periods, a Fund may have a greater need for cash to provide collateral for large swings in its mark-to-market obligations under the derivatives used by the Fund.

Derivatives also present other risks described in this section, including market risk, liquidity risk, currency risk, credit risk, legal and regulatory risk, and counterparty risk. Many derivatives, in particular OTC derivatives, are complex and their valuation often requires modeling and judgment, which increases the risk of mispricing or improper valuation. The pricing models used may not produce valuations that are consistent with the values a Fund realizes when it closes or sells an OTC derivative. Valuation risk is more pronounced when the Fund enters into OTC derivatives with specialized terms because the value of those derivatives in some cases is determined only by reference to similar derivatives with more standardized terms. As a result, incorrect valuations may result in increased cash payments to counterparties, undercollateralization and/or errors in the calculation of a Fund's net asset value. Derivatives also involve the risk that changes in their value may not move as expected relative to the value of the assets, rates or indices they are designed to track.

In addition, suitable derivatives will not be available in all circumstances. For example, the economic costs of taking some derivative positions may be prohibitive, and if a counterparty or its affiliate is deemed to be an affiliate of a Fund, the Fund will not be permitted to trade with that

counterparty. In addition, WCP may decide not to use derivatives to hedge or otherwise reduce a Fund's risk exposures, potentially resulting in losses for the Fund.

When a Fund uses credit default swaps to obtain synthetic long exposure to a fixed income security such as a debt instrument or index of debt instruments, the Fund is exposed to the risk that it will be required to pay the full notional value of the swap contract in the event of a default.

Swap contracts and other OTC derivatives are highly susceptible to liquidity risk and counterparty risk (see "Counterparty Risk" below), and are subject to documentation risks. Because many derivatives have a leverage component (i.e., a notional value in excess of the assets needed to establish and/or maintain the derivative position), adverse changes in the value or level of the underlying asset, rate or index may result in a loss substantially greater than the amount invested in the derivative itself.

Certain derivatives contracts are required to be executed through swap execution facilities ("SEFs"). A SEF is a trading platform where multiple market participants can execute derivatives by accepting bids and offers made by multiple other participants in the platform. Such requirements may make it more difficult and costly for investment funds, such as the Funds, to enter into highly tailored or customized transactions. Trading swaps on a SEF may offer certain advantages over traditional bilateral over-the-counter trading, such as ease of execution, price transparency, increased liquidity and/or favorable pricing. Execution through a SEF is not, however, without additional costs and risks, as parties are required to comply with SEF and U.S. Commodity Futures Trading Commission ("CFTC") rules and regulations, including disclosure and recordkeeping obligations, and SEF rights of inspection, among others. SEFs typically charge fees, and if a Fund executes derivatives on a swap execution facility through a broker intermediary, the intermediary may impose fees as well. A Fund also may be required to indemnify a SEF, or a broker intermediary who executes cleared derivatives on a SEF on the Fund's behalf, against any losses or costs that may be incurred as a result of the Fund's transactions on the SEF. In addition, a Fund may be subject to execution risk if it enters into a derivatives transaction that is required to be cleared (or which the general partner of a Fund expects to be cleared), and no clearing member is willing to clear the transaction on the Fund's behalf. In that case, the transaction might have to be terminated, and a Fund could lose some or all of the benefit of any increase in the value of the transaction after the time of the trade.

### Counterparty Risk

To the extent a Fund enters into contracts with counterparties, such as repurchase or reverse repurchase agreements or other OTC derivatives contracts, or lends its securities, the Fund runs the risk that the counterparty will be unable or unwilling to make timely settlement payments or otherwise honor its obligations. If a counterparty fails to meet its contractual obligations, goes bankrupt or otherwise experiences a business interruption, a Fund could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses for the Fund. There is no explicit limit on the amount of exposure that HVP may have with any one counterparty nor a requirement that counterparties maintain a specific rating by a nationally recognized rating organization in order to be considered for potential transactions. As a result of LTD's listing on the Irish Stock Exchange ("ISE"), LTD may not, while listed on ISE, enter into any derivative

transaction that would result in an exposure of more than 20% of the value of its net assets to any single counterparty. To the extent that WCP's view with respect to a particular counterparty changes (whether due to external events or otherwise), existing transactions are not required to be terminated or modified. Additionally, new transactions may be entered into with a counterparty that is no longer considered eligible if the transaction is primarily designed to reduce the overall risk of potential exposure to that counterparty (for example, re-establishing the transaction with a lesser notional amount). Counterparty risk is pronounced during unusually adverse market conditions and is particularly acute in environments (like those of 2008) in which financial services firms are exposed to systemic risks of the type evidenced by the insolvency of Lehman Brothers in 2008 and subsequent market disruptions.

Participants in OTC derivatives markets typically are not subject to the same level of credit evaluation and regulatory oversight as are members of exchange-based markets, and, therefore, OTC derivatives generally expose a Fund to greater counterparty risk than exchange-traded derivatives. The Funds are subject to the risk that a counterparty will not settle a derivative in accordance with its terms because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem. If a counterparty's obligation to a Fund is not collateralized, then the Fund is essentially an unsecured creditor of the counterparty. If the counterparty defaults, the Fund will have contractual remedies, but the Fund may be unable to enforce them, thus causing the Fund to suffer a loss. Counterparty risk is greater for derivatives with longer maturities because of the greater possibility that events will intervene to prevent final settlement. Counterparty risk also is greater when a Fund has concentrated its derivatives with a single or small group of counterparties as it sometimes does as a result of its use of swaps and other OTC derivatives. Significant exposure to a single counterparty increases a Fund's counterparty risk. To the extent a Fund uses swap contracts, it may be subject, in particular, to the creditworthiness of the counterparties because some types of swap contracts have durations longer than six months (and, in some cases, decades). The creditworthiness of a counterparty may be adversely affected by greater than average volatility in the markets, even if the counterparty's net market exposure is small relative to its capital. Counterparty risk still exists even if a counterparty's obligations are secured by collateral because a Fund's interest in the collateral may not be perfected or additional collateral may not be promptly posted as required.

The Funds also are subject to counterparty risk because they execute their securities transactions through brokers and dealers. If a broker or dealer fails to meet its contractual obligations, goes bankrupt, or otherwise experiences a business interruption, a Fund could miss investment opportunities or be unable to dispose of investments it would prefer to sell, resulting in losses for the Fund.

### Options Risk

A Fund may engage in a variety of options transactions. When a Fund purchases options, it risks the loss of the cash paid for the options if the options expire unexercised. When a Fund sells (writes) covered call options, it forgoes the opportunity to benefit from an increase in the value of the underlying stock above the exercise price, but it continues to bear the risk of a decline in the value of the underlying stock. In addition, a Fund may earn premiums from writing call options. For investors who hold Fund interests in a taxable account, profits from writing call options are

generally treated as short-term capital gains for federal and state income tax purposes, taxable to investors as ordinary income when distributed to them.

### Distressed Securities Risk

Distressed securities risk refers to the uncertainty of repayment of defaulted securities and obligations of distressed issuers. Because the issuer of such securities is likely to be in a distressed financial condition, repayment of distressed or defaulted securities (including insolvent issuers or issuers in payment or covenant default, in workout or restructuring or in bankruptcy or insolvency proceedings) is subject to significant uncertainties. Insolvency laws and practices in foreign jurisdictions are different than those in the U.S. and the effect of these laws and practices may be less favorable and predictable than in the U.S. Investments in defaulted securities and obligations of distressed issuers are considered highly speculative.

### Foreign Investing Risk

Investing in foreign companies or ETFs that invest in foreign companies, may involve more risks than investing in U.S. companies and such investments may entail political, cultural, regulatory, legal and tax risks different from those associated with comparable transactions in the United States. These risks can increase the potential for losses in a Fund and may include, among others, currency devaluations, currency risks (fluctuations in currency exchange rates), country risks (political, diplomatic, regional conflicts, terrorism, war, social and economic instability and policies that have the effect of limiting or restricting foreign investment or the movement of assets) as well as different trading and settlement practices, less government supervision, less publicly available information, limited trading markets and greater volatility than comparable investments in U.S. companies. Additionally, investments in securities denominated in foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar. A decline in the value of foreign currencies relative to the U.S. dollar will reduce the value of securities held by a Fund and denominated in those currencies. The foregoing risks may apply to a greater extent to investments in emerging market countries. The securities markets of emerging market countries are generally smaller, less developed, less liquid, and more volatile than the securities markets of the United States and developed countries. Foreign investments may be subject to foreign withholding taxes.

### Debt Securities Risk

Debt securities may fluctuate in value and experience periods of reduced liquidity due to, among other things, changes in interest rates, governmental intervention, general economic conditions, industry fundamentals, market sentiment and the financial condition of the issuer, including the issuer's credit rating or financial performance. During those periods, a Fund may experience high levels of shareholder redemptions, and may have to sell securities at times when it would otherwise not do so, and at unfavorable prices. Debt securities may be difficult to value during such periods. Debt securities are subject to interest rate risk, which is the risk that when interest rates rise, the values of fixed income debt securities tend to decline. Debt securities have varying levels of sensitivity to changes in interest rates, and the values of securities with longer durations tend to be more sensitive to changes in interest rates. Debt securities are subject to the risk that if interest

rates decline, issuers of debt securities may exercise redemption or call provisions. This may force a Fund to reinvest redemption or call proceeds in securities with lower yields, which may reduce Fund performance. Debt securities are also subject to credit risk, which is the risk that the issuer of an instrument may default on interest and/or principal payments due to a Fund. An increase in credit risk or a default will cause the value of a Fund's fixed and floating rate income securities to decline. Securities rated below-investment-grade (and unrated securities of comparable credit quality), commonly referred to as "high-yield" or "junk" bonds, have speculative characteristics and generally have more credit risk than higher-rated securities. Lower rated issuers are more likely to default and their securities could become worthless. These securities may be subject to a greater price volatility due to such factors as specific corporate developments, interest rate sensitivity, negative perceptions of junk bonds generally, and less secondary market liquidity. This potential lack of liquidity may make it more difficult for a Fund to accurately value these securities. In addition, investments in defaulted securities and obligations of distressed issuers, such as issuers undergoing or expected to undergo bankruptcy, may be illiquid and are considered highly speculative.

The market value of convertible debt securities will also be affected by changes in the price of the underlying equity securities. The market values of debt securities issued by companies involved in pending corporate mergers, takeovers or other corporate events, or debt securities that will be repaid in connection with a merger, takeover or other corporate event, may be determined in large part by the status of the transaction and its eventual outcome, especially if the debt securities are subject to change of control provisions that entitle the holder to be paid par value or some other specified dollar amount upon completion of a transaction or other event.

In recent periods, governmental financial regulators, including the U.S. Federal Reserve, have taken steps to maintain historically low interest rates by purchasing bonds. Steps by those regulators, including to curtail or "taper" such activities, could result in the effects described above or otherwise adversely affect the value of a Fund's investments, and could have a material adverse effect on prices for debt securities and the management of the Fund.

### Leveraging Risk

A Fund's investments in futures contracts, forward contracts, swaps and other derivative instruments also may provide the economic effect of financial leverage by creating additional investment exposure, as well as the potential for greater loss. If a Fund employs leverage through activities such as borrowing money to purchase securities, engaging in reverse repurchase agreements, lending portfolio securities and investing in derivative instruments, a Fund's shares could be expected to be more volatile. The interest, financing or other costs which a Fund must pay on borrowed money or other forms of leverage, together with any additional fees or requirements, are additional costs which will reduce the Fund's returns. Unless profits and income on securities acquired with leverage exceed the costs of the leverage, the use of leverage will diminish the investment performance of a Fund compared with what it would have been without leverage, and the use of leverage will cause any losses the Fund incurs to be greater than they otherwise would have been had the Fund not employed leverage.



### Short Selling Risk

If the price of a security sold short increases between the time of the short sale and the time a Fund covers its short position, the Fund will incur a loss. Short selling is subject to theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the “short” position is closed out. Also, a Fund is required to deposit collateral in connection with such short sales and has to pay a fee to borrow particular securities and will often be obligated to pay to the lender of the security amounts equal to any dividends and accrued interest on the borrowed securities during the period of the short sale. These aspects of short selling increase the costs to a Fund and will reduce its rate of return. Additionally, the successful use of short selling may be adversely affected by imperfect correlation between movements in the price of the security sold short and the securities being hedged.

The U.S. Securities and Exchange Commission (“SEC”) has adopted restrictions on the short sale of securities that fall more than 10 percent in a given day (referred to as the “circuit breaker” or “modified uptick rule”). If the SEC were to adopt additional restrictions on short sales, such restrictions could restrict the Funds’ ability to engage in short sales in certain circumstances, and the Funds may be unable to execute their investment strategy as a result. The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases have adopted) bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for the Funds to execute certain investment strategies and may have a material adverse effect on the Funds’ ability to achieve their investment objective and generate returns. In addition, engaging in short selling may increase the risk of the Funds becoming subject to government investigation.

### Special Purpose Acquisition Companies (“SPAC”) Risk

A SPAC is typically a publicly traded company that raises funds through an initial public offering (“IPO”) for the purpose of acquiring or merging with another company to be identified subsequent to the SPAC’s IPO. Because SPACs and similar entities have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity’s management to identify and complete a profitable acquisition. Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices. In addition, these securities, which may be traded in the over-the-counter market, may be considered illiquid and/or may be subject to restrictions on resale. An investment in a SPAC is subject a variety of risks, including that (i) a significant portion of the monies raised by the SPAC for the purpose of identifying and effecting an acquisition or merger may be expended during the search for a target transaction; (ii) an attractive acquisition or merger target may not be identified at all and the SPAC will be required to return any remaining monies to shareholders; (iii) any proposed merger or acquisition may be unable to obtain the requisite approval, if any, of SPAC shareholders; (iv) an acquisition or merger once effected may prove unsuccessful and an investment in the SPAC may lose value; (v) the warrants or other rights with respect to the SPAC held by a Fund may expire worthless or may be repurchased or retired by the SPAC at an unfavorable price; (vi) a Fund will be delayed in receiving any redemption or liquidation proceeds from a SPAC to which it is entitled; (vii) an investment in a SPAC may be diluted by additional later offerings of interests in the SPAC or by other investors exercising existing rights to purchase shares of the SPAC; (viii) no or only a thinly traded market for shares of or interests in a SPAC

may develop, leaving a Fund unable to sell its interest in the SPAC or to sell its interest only at a price below what the Fund believes is the SPAC interest's intrinsic value; (ix) the values of investments in SPACs may be highly volatile, a Fund may have little or no ability to hedge its exposure to a SPAC investment, and the value of a SPAC investment may depreciate significantly; (x) an investment in a SPAC may include potential conflicts and potential for misalignment of incentives in the structure of the SPAC; and (xi) the growth in SPAC offerings may increase competition for target companies and, as a result, contribute to a decline in deal quality.

### Liquidity Risk

The markets for high-yield, convertible and certain lightly-traded equity securities (particularly small cap issues) are often not as liquid as markets for higher-rated securities or large cap equity securities. For example, relatively few market makers may participate in the secondary markets for high-yield debt securities, and the trading volume for high-yield debt securities is generally lower than that for higher-rated securities. Accordingly, these secondary markets (generally or for a particular security) could contract under real or perceived adverse market or economic conditions. These factors may have an adverse effect on a Fund's ability to dispose of particular portfolio investments and may limit the ability of a Fund to obtain accurate market quotations for purposes of valuing securities and calculating NAV. Less liquid secondary markets also may affect a Fund's ability to sell securities at their fair value. A Fund may invest in illiquid securities, which are more difficult to value and may be difficult to sell. If the secondary markets for lightly-traded securities contract due to adverse economic conditions or for other reasons, certain liquid securities in a Fund's portfolio may become illiquid, and the proportion of a Fund's assets invested in illiquid securities may increase.

Smaller, unseasoned companies (those with less than a three-year operating history) and recently-formed public companies may not have established products, experienced management, or an earnings history. As a result, their stocks may lack liquidity. Investments in foreign securities may lack liquidity due to heightened exposure to potentially adverse local, political, and economic developments such as war, political instability, hyperinflation, currency devaluations, and overdependence on particular industries. In addition, government interference in markets such as nationalization and exchange controls, expropriation of assets, or imposition of punitive taxes may result in a lack of liquidity. Possible problems arising from accounting, disclosure, settlement, and regulatory practices or changes and legal rights that differ from U.S. standards might reduce liquidity. The chance that fluctuations in foreign exchange rates will decrease the investment's value (favorable changes can increase its value) will also impact liquidity. These risks are heightened for investments in developing countries.

### Market Risk

Investment markets can be volatile. Various market risks can affect the price or liquidity of an issuer's securities in which a Fund may invest. The prices of investments can fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. No hedging or other instrument exists that would allow a Fund to eliminate all of such Fund's exposure to market volatility. During periods of significant market stress or volatility, the performance of a Fund may correlate to a greater extent with the overall

equity markets than it has during periods of less stress and volatility. There can be no assurance that a Fund's performance will not correlate closely with that of the equity markets during certain periods. A Fund's investments may decline in value if markets perform poorly. There is also a risk that a Fund's investments will underperform either the securities markets generally or particular segments of the securities markets.

The liquidity in a market for a particular security will affect its value and may be affected by factors relating to the issuer, as well as the depth of the market for that security. Other market risks that can affect value include a market's current attitudes about types of securities, market reactions to political, social, economic or other events, including litigation, and tax and regulatory effects (including lack of adequate regulations for a market or particular type of instrument).

Additionally, the consummation of mergers and other corporate reorganizations can be prevented or delayed by changes in market conditions. Unstable market conditions in the past have caused certain transactions to be canceled or deferred, resulting in significant losses to participants in merger arbitrage. Further, in recent years, U.S. and global financial markets and the broader current financial environment have been, and continue to be, characterized by uncertainty, volatility and instability. There can be no assurance that conditions in the financial markets will not worsen or materially and adversely affect transactions currently pending or announced in the future.

### Legal and Regulatory Risk

Legal, tax and regulatory changes could occur and may adversely affect a Fund, its investments and its ability to pursue its investment strategies and/or increase the costs of implementing such strategies. New (or revised) laws or regulations may be imposed by the CFTC, the SEC, the Internal Revenue Service ("IRS"), the U.S. Federal Reserve or other governmental regulatory authorities or self-regulatory organizations that could adversely affect a Fund or a Fund's investments, including, for example, by preventing the completion of a proposed merger or eliminating some or all of the benefits of a proposed merger. The Funds also may be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by governmental regulatory authorities or self-regulatory organizations. Regulators around the globe have increasingly taken measures to seek to increase the stability of the financial markets, including by proposing rules that may curtail a Fund's ability to use derivative and other instruments and that may require a Fund to change how it has been managed historically. WCP continues to evaluate these measures, and there can be no assurance that they will not adversely affect the Funds and their performance.

In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The CFTC, the SEC, the Federal Deposit Insurance Corporation, other regulators and self-regulatory organizations and exchanges are authorized under these statutes, regulations and otherwise to take extraordinary actions in the event of market emergencies.

The CFTC and certain futures exchanges have established limits, referred to as "position limits," on the maximum net long or net short positions which any person may hold or control in particular options and futures contracts; those position limits may apply to certain other derivatives positions

a Fund may wish to take. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if a Fund does not intend to exceed applicable position limits, it is possible that different clients managed by WCP and its affiliates may be aggregated for this purpose. Therefore, it is possible that the trading decisions of WCP may have to be modified and that positions held by a Fund may have to be liquidated in order to avoid exceeding such limits. The modification of investment decisions or the elimination of open positions, if it occurs, may adversely affect the performance of a Fund.

The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain *de minimis* threshold and may adopt rules requiring monthly public disclosure in the future. In addition, other non-U.S. jurisdictions where a Fund may trade have adopted reporting requirements. If a Fund's short positions or its strategy becomes generally known, it could have a significant effect on WCP's ability to implement its investment strategy. In particular, it would make it more likely that other investors could cause a short squeeze in the securities held short by a Fund forcing the Fund to cover its positions at a loss. In addition, if other investors engage in copycat behavior by taking positions in the same issuers as a Fund, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to a Fund could decrease drastically. Such events could make a Fund unable to execute its investment strategy. In addition, if the SEC were to adopt restrictions regarding short sales, they could restrict a Fund's ability to engage in short sales in certain circumstances, and the Fund may be unable to execute their investment strategies as a result.

The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases, have adopted) bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for a Fund to execute certain investment strategies and may have a material adverse effect on the Fund's ability to generate returns.

Investing in companies involved in significant mergers, restructurings and other similar transactions or corporate events tends to involve increased litigation risk. This risk may be greater in the event a Fund takes a large position or is prominently involved on a bankruptcy or creditors' committee. The expense of asserting claims (or defending claims) and recovering any amounts pursuant to settlements or judgments may be borne by a Fund. Further, ownership of companies over certain threshold levels involves additional filing requirements and substantive regulation on such owners, and if a Fund fails to comply with all of these requirements, the Fund may be forced to disgorge profits, pay fines or otherwise bear losses or other costs from such failure to comply. Public disclosure of a Fund's positions could have a significant effect on WCP's ability to implement its investment strategies for the Fund. For example, if other investors engage in copycat behavior by taking positions in the same issuers as a Fund, the cost of such securities to the Fund could increase drastically. Additionally, to the extent that such purchases are opposed by management of the target company or others, a Fund may be subject to litigation. Such events could increase a Fund's costs significantly, reduce the Fund's returns, and prevent the Fund from executing its investment strategy.

### Concentration of Investments

There is no explicit limit on the amount of exposure that HVP may have to any one issuer. As a result of LTD's listing on the Irish Stock Exchange ("ISE"), LTD may not, while listed on ISE, purchase a security, or the securities of or relating to any single issuer, that would result in an exposure of more than 20% of the value of its total assets to such issuer. Although it is the policy of WCP to diversify a Fund's capital among a number of investments deemed attractive, a Fund may at certain times hold a few, relatively large (in relation to its capital) securities positions, with the result that a loss in any such position could have a material adverse impact on the Fund's capital.

From time to time, a Fund may purchase shares in a given company which, when aggregated with similar purchases by entities affiliated with the Fund, equal five percent (5%) or more of that company's outstanding equity securities. In connection therewith or in other cases, a Fund and such other affiliated entities, may seek to influence the company's consideration of its strategic alternatives or affect the outcome of a pending corporate reorganization. Purchases of five percent (5%) or more may require WCP to file a Schedule 13D or 13G with the Securities and Exchange Commission ("SEC"), which documents are available to the public. Public disclosure of a Fund's positions could have a significant effect on WCP's ability to implement its investment strategies for a Fund. For example, if other investors engage in copycat behavior by taking positions in the same issuers as a Fund, the cost of such securities to the Fund could increase drastically. Additionally, to the extent that such purchases are opposed by management of the target company or others, a Fund may be subject to litigation. Such events could increase a Fund's costs significantly, reduce a Fund's returns, and prevent a Fund from executing its investment strategy.

### Payment of Incentive Fee or Allocation Fee

The incentive fee or allocation fee, as applicable, is paid to WCP on the basis of any Net Profits achieved in a year at the end of which a Fund's Net Asset Value per Share exceeds the highest previous year-end level. However, the incentive fee or allocation fee, as applicable, is calculated at the Fund level, not on an investor-by-investor basis, and a Fund is not charged an incentive fee or allocation fee, as applicable, at the Master Fund level. Therefore, as in any open end fund with a structure similar to a Fund's (i.e., an incentive fee, high water mark and uniform net asset value), incentive fees or incentive allocations may in certain instances be subject to being misallocated among investors. It is impossible to predict the effect of any such misallocations over time on any particular investor. Although it is generally anticipated that such effect will be insignificant, in certain scenarios there could be a material misallocation of these fees.

### Side Letters; Other Agreements

A Fund may enter into side letter agreements with certain prospective or existing shareholders whereby such shareholders may be subject to terms and conditions that are more advantageous than those set forth in a Fund's offering memorandum. For example, such terms and conditions may provide for special rights to make future investments in a Fund, other investment vehicles or managed accounts; special redemption rights; a reduction or rebate in fees to be paid by the shareholder; rights to receive reports from a Fund on a more frequent basis or that include

information not provided to other shareholders (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by a Fund and such shareholders. The modifications are solely at the discretion of WCP and may, among other things, be based on the size of the shareholder's investment in a Fund or affiliated investment entity, an agreement by a shareholder to maintain such investment in a Fund for a significant period of time, or other similar commitment by a shareholder to a Fund.

### Competition

The Funds will compete with numerous other arbitrage firms, many of which have larger research and trading staffs and greater financial resources. In any given transaction, arbitrage activity by other firms will tend to narrow the spread between the price at which a security may be purchased by a Fund and the expected value of the security upon completion of the reorganization.

### Broker or Dealer Insolvency

While great care is taken in selecting brokers or dealers who will maintain custody of certain of the Funds' assets held as margin or other collateral, there is a risk that any of such brokers or dealers could become insolvent. It is expected that all securities and other assets deposited with brokers or dealers will be held "in street name" and hence the Funds will be exposed to a credit risk with regard to such parties. There may be practical or time problems associated with enforcing a Fund's rights to its assets in the case of an insolvency of any such party. To the extent that any broker or dealer not satisfying a Fund's investment restrictions with regard to counterparties that holds assets of the Fund other than margin deposits, WCP will instruct that such assets, including collateral, be held in segregated accounts in the name of the Fund and therefore be unavailable to the creditors of the broker or dealer upon insolvency of such broker or dealer. To the extent that collateral and margin deposits are held by any broker or dealer satisfying a Fund's investment restrictions with regard to counterparties, such collateral and margin deposits will be fungible to the extent possible with regard to the characteristics of the collateral and margin deposits and the Fund's investment program. WCP expects that such collateral and margin deposits will only be held by brokers that satisfy the counterparty requirements as set out herein. Such brokers must be regulated as a broker by such regulatory authority as set out herein. WCP expects prime brokers for the Funds to comply with all relevant regulations and restrictions of the Irish Stock Exchange.

### Master-Feeder Fund Structure

HVP and LTD invest through a "master-feeder" structure. HVP and LTD are required to contribute substantially all of their assets (other than cash and short-term investments held pending contribution or distribution) to the Master Fund. The master-feeder fund structure presents certain unique risks to the investors. Smaller investment vehicles investing in the Master Fund may be materially affected by the actions of a larger investment vehicle investing in the Master Fund. For example, if a larger investment vehicle withdraws from the Master Fund, the remaining funds may experience higher pro rata operating expenses, thereby producing lower returns. Similarly, the Master Fund may become less diversified due to a redemption by a larger investment vehicle, resulting in increased portfolio risk.

### Contingent Tax Liability

There are potential additional tax liabilities relating to uncertain tax positions associated with the Master Fund's investments in foreign jurisdictions during the periods that are open to review by the taxing authorities in those jurisdictions. WCP has determined that under FASB's Accounting Standards Codification (ASC) 740, titled Income Taxes, the financial statements of the Fund ordinarily would be required to recognize additional tax liabilities with respect to such tax positions. WCP considers the risk of these uncertain tax positions to be immaterial to the Fund and the likelihood of these uncertain tax positions becoming a definite tax liability as remote. Accordingly, no such liability has been recognized in the financial statements of the Master Fund or the Fund.

### Non-Disclosure of Positions

In an effort to protect the confidentiality of their positions (held through their investments in the Master Fund), HPV and LTD may not generally disclose all of their positions to shareholders on an ongoing basis.

### Cyber Security Risk

With the increased use of technologies, such as the Internet, and the dependence on computer systems to perform necessary business functions, the Funds and their service providers are susceptible to operational and information security risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber attacks include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites. Cyber security failures or breaches of a Fund's third party service provider (including, but not limited to, the administrator) or the issuers of securities in which such Fund invests, have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the inability of investors to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs. In addition, substantial costs may be incurred in attempting to prevent any cyber incidents in the future. The Funds and the investors could be negatively impacted as a result. The Funds' service providers may have adopted business continuity plans and systems designed to prevent such cyber attacks. However, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified. Furthermore, the Funds cannot control the cyber security plans and systems put in place by issuers in which the Funds invest.

### Coronavirus Outbreak Risk

An outbreak of respiratory disease caused by a novel coronavirus designated as COVID-19 emerged in late 2019 and spread internationally. The transmission of COVID-19 and efforts to contain its spread have resulted in, among other things, border closings and other significant travel restrictions and disruptions, significant disruptions to business operations, supply chains and customer activity, event cancellations and restrictions, service cancellations, reductions and other

changes, significant challenges in healthcare service preparation and delivery, and prolonged quarantines, as well as general concern and uncertainty. These impacts also have caused, and may continue to contribute to, significant market volatility, exchange trading suspensions and closures, and declines in global financial markets, which have caused losses for investors. The COVID-19 pandemic and its effects may be short term or may last for an extended period of time, and in either case could result in significant market volatility, exchange trading suspensions and closures, declines in global financial markets, higher default rates, and a substantial economic downturn or recession. Health crises caused by the outbreak of COVID-19 (or similar outbreaks of infectious disease) and governmental responses thereto may exacerbate other pre-existing political, social, economic, market and financial risks. The impact of the COVID-19 outbreak, and other epidemics and pandemics that may arise in the future, could negatively affect the global economy, the economies of individual countries, and the financial performance of individual companies, sectors, industries, asset classes, and markets in significant and unforeseen ways. Any such impact could adversely affect the value and liquidity of a Fund's investments, limit severely the Fund's investment opportunity set, impair a Fund's ability to satisfy redemption requests, and negatively impact the Fund's performance. In addition, the outbreak of COVID-19 or similar infectious diseases, and measures taken to mitigate their effects, could result in disruptions to the services provided to a Fund by its service providers, leading to operational delays and failures and additional investment losses. Issues arising out of or related to this recent health crisis and governmental and business responses thereto may cause one or more events in which a Fund has invested to fail to close or occur as expected by the Adviser, leading to the Fund experiencing investment losses.

### LIBOR Risk

The London Interbank Offered Rate ("LIBOR") historically has been and currently is used extensively in the U.S. and globally as a "benchmark" or "reference rate" for various commercial and financial contracts, including corporate and municipal bonds, bank loans, asset-backed and mortgage-related securities, interest rate swaps and other derivatives. For example, debt instruments in which a Fund invests may pay interest at floating rates based on LIBOR or may be subject to interest caps or floors based on LIBOR. A Fund's derivative investments may also reference LIBOR. In addition, issuers of instruments in which a Fund invests may obtain financing at floating rates based on LIBOR, and a Fund may use leverage or borrowings based on LIBOR. In July 2017, the head of the United Kingdom Financial Conduct Authority announced the intention to phase out the use of LIBOR by the end of 2021. However, after subsequent announcements by the FCA, the LIBOR administrator and other regulators, certain of the most widely used LIBORs have been extended and are expected to continue until mid-2023. Currently, the U.S. and other countries are working to replace LIBOR with alternative reference rates. The transition effort in the U.S. is being led by the Alternative Reference Rate Committee (ARRC), a diverse group of market participants convened by the Federal Reserve. After much deliberation, ARRC selected the Secured Overnight Financing Rate ("SOFR") as the preferred LIBOR successor for U.S. dollar markets. SOFR is a volume-weighted median of borrowing rates from the Treasury repurchase agreement market. National working groups in other jurisdictions have similarly identified overnight nearly risk-free rates like SOFR as their preferred alternatives to LIBOR. Although the structured transition to the new rates is designed to mitigate the risks of disruption to financial markets, such risks exist. Abandonment of or modifications to LIBOR could



lead to significant short- and long-term uncertainty and market instability. The risks associated with this discontinuation and transition may be exacerbated if the work necessary to effect an orderly transition to an alternative reference rate is not completed in a timely manner. It remains uncertain the effects such changes will have on the Funds, issuers of instruments in which the Funds invest, and the financial markets generally.

#### Possibility of Fraud and Other Misconduct of Employees and Service Providers

Misconduct by employees of the WCP, service providers to WCP or the Funds and/or their respective affiliates could cause significant losses to such Funds. Misconduct may include entering into transactions without authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by such Funds, the improper use or disclosure of confidential or material non-public information, which could result in litigation, regulatory enforcement or serious financial harm, including limiting the business prospects or future marketing activities of such Funds and noncompliance with applicable laws or regulations and the concealing of any of the foregoing. Such activities may result in reputational damage, litigation, business disruption and/or financial losses to such Funds. WCP has controls and procedures through which they seek to minimize the risk of such misconduct occurring. However, no assurances can be given that WCP will be able to identify or prevent such misconduct.

### **ITEM 9 - DISCIPLINARY INFORMATION**

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

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

WCP has material relationships with its affiliates, as described below.

WCP is a wholly owned subsidiary of Virtus Partners, Inc. ("VPI"), which is a wholly owned subsidiary of Virtus Investment Partners, Inc. ("Virtus"). Virtus is a publicly traded company operating a multi-manager asset management business (NASD: VRTS). Certain officers and directors of Virtus serve as officers of Virtus's indirect, wholly owned affiliates, including WCP.

The following advisers are all subsidiaries of VPI and are affiliates of WCP:

- Ceredex Value Advisors LLC
- Duff & Phelps Investment Management Co.
- Kayne Anderson Rudnick Investment Management, LLC,
- Newfleet Asset Management, LLC
- NFJ INVESTMENT GROUP, LLC
- Seix CLO Management LLC
- Seix Investment Advisors LLC
- Silvant Capital Management, LLC

- Stone Harbor Investment Partners, LLC
- Stone Harbor Investment Partners Limited
- Stone Harbor Investment Partners (UK) LLP
- Stone Harbor Investment Partners PTE. LTD.
- Sustainable Growth Advisers, LP
- Virtus Alternative Investment Advisers, Inc.
- Virtus ETF Advisers LLC
- Virtus Fund Advisers, LLC
- Virtus Investment Advisers, Inc.
- Westchester Capital Management, LLC

In providing services to its clients, WCP utilizes the personnel and/or services of one or more of its affiliates in the performance of its business, including, without limitation, back office operations, legal and compliance, finance and accounting, marketing, sales, information technology and human resources. These services may be provided through arrangements that take a variety of forms, including dual employee or delegation arrangements, formal subadvisory or servicing agreements, or other formal and informal arrangements among WCP and its affiliates. When WCP uses the personnel or services of an affiliate to provide services to WCP's clients, WCP remains responsible for the account from a legal and contractual perspective. No additional fees are charged to the client for such services except as set forth in the client's applicable investment management or other agreement.

WCP is not registered, and does not have an application pending to register, as a broker-dealer. However, an affiliate of WCP, VP Distributors, LLC ("VPD") is a registered broker-dealer. VPD is a limited purpose broker-dealer that serves as principal underwriter and distributor of certain open-end mutual funds and ETFs managed by VIA and/or its affiliated investment advisers.

WCP is not registered, and does not have an application pending to register, as a futures commission merchant, a commodity pool operator, or a commodity trading advisor. Certain of WCP's affiliated investment advisers are registered as commodity pool operators or commodity trading advisors in connection with their management activities.

Virtus and its affiliates, including WCP, are subject to information barriers that restrict prohibited communications and other information sharing between affiliates. WCP is aware of, and has procedures to manage its fiduciary duties and any potential conflicts that may arise related to providing services through affiliates.

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

### Code of Ethics

We endeavor to ensure that the investment management and overall business of the firm complies with both our firm and Virtus (parent) policies and applicable U.S. federal and state securities laws and regulations. We have adopted the Virtus Code of Conduct and Code of Ethics (the "Codes")

in accordance with Rule 204A-1 of the Investment Advisers Act of 1940, as amended, and Rule 17j-1 of the Investment Company Act of 1940, as amended. The Codes have been reasonably designed to prevent and detect possible conflicts of interest with client trades. Compliance with the Codes is a condition of employment. All of our supervised persons must acknowledge terms of the Codes, annually, or as amended. Any employee found to have engaged in improper or unlawful activity faces appropriate disciplinary action. Each employee is responsible for ensuring that they and those they manage, conduct business professionally and comply with our firm's policies and procedures. Employees must immediately report (to their supervisor, a compliance officer or corporate legal counsel) their knowledge of any wrongdoing or improper conduct. Failure to do so may result in disciplinary action being taken against that individual. Our reporting procedures are supported by a telephone number and similar on-line reporting technology available 24-hours/day to any employee to confidentially report, or request assistance concerning possible violations of the Codes and other firm policies. This technology and reporting platform is administered by an independent, third-party.

Our officers and employees are encouraged to invest in shares of investment products that we and/or our affiliates advise. Subject to limitations described herein and set forth by our Codes, our officers and/or associated personnel may buy, hold, or sell the same investments for their own accounts as are held or to be held or sold for a client account and they may engage in the following:

- Recommend that clients buy or sell securities or investment products in which we or a related person have some financial interest; and/or
- Buy or sell securities or investment products that our firm and/or our officers and associated personnel or a related person recommends to our clients.

Our Codes are designed to prevent and detect conflicts of interest in regard to the above.

None of our officers and Access or Advisory persons may buy or sell any security or any option to buy or sell such security, such that they hold or acquire any direct or indirect beneficial ownership as a result of the transaction, if they know at the time of such transaction that such a security or option is being bought, sold, or considered for purchase or sale for a client account, unless one or more of the following conditions exist:

- They have no influence or control over the transaction from which they will acquire a beneficial interest;
- The transaction is non-volitional on their part or the client's;
- The transaction is a purchase under an automatic dividend reinvestment plan or pursuant to the exercise of rights issues, pro-rata to them and other holders of the same class of the issuer's securities; or
- They have obtained, in advance, approval from someone authorized to grant such approval when circumstances indicate no reasonable likelihood of harm to the client or violation of applicable laws and regulations.

### *Code of Conduct*

The following highlights some of the provisions of the Virtus Code of Conduct:

- Compliance with Applicable Laws, Rules and Regulations
- Insider Trading
- Conflicts of Interest
- Corporate Opportunities
- Fair Dealing
- Protection and Proper Use of Company Assets
- Confidentiality
- Recordkeeping
- Interaction with Government Officials and Lobbying
- Contract Review and Execution
- Company Disclosures and Public Communications
- Information Protection Policies
- Human Resource Policies
- Use of Social Media
- Intellectual Property
- Designation of Compliance Officers
- Seeking Guidance About Requirement of the Code
- Reporting Violations
- Waivers, Discipline and Penalties

### *Code of Ethics*

Employees are categorized as either Supervised, Access or Advisory Persons under our Code of Ethics.

All Supervised Persons are required to comply with the following:

- Instruct their brokers to directly provide our Compliance Department with duplicate copies of brokerage statements and trade confirmations or the electronic equivalent.
- Provide Initial Holdings Reports, Quarterly Transaction Reports, and Annual Certification and Holdings Reports, which our Compliance Department reviews for trading activity.
- Conduct their personal transactions consistent with the Code of Ethics and in a manner that avoids any actual or potential conflict of interest.

In addition to the above, those employees classified as Access Persons are further required to comply with the following:

- Pre-clear all non-exempt transactions with respect to which an employee is beneficial owner in order to prevent the employee from buying or selling at the same time as the firm.
- Hold all covered securities no less than 30-days.

Employees classified as Advisory Persons are further prohibited from directly or indirectly acquiring or disposing of a security on the date of, and within seven calendar days before and after the portfolio(s) associated with that person's portfolio management activities.

Any covered employee not in observance of the above may be subject to a variety of disciplinary actions.

#### *Other Related Policies and Procedures*

We have adopted the Insider Trading Policy and Procedures designed to mitigate the risks of our firm and its employees misusing and misappropriating any material non-public information that they become aware of, either on behalf of our clients or for their own benefit. Personnel are not to divulge or act upon any material, non-public information, as defined under relevant securities laws and in our Insider Trading Policy and Procedures. The policy applies to each of our Supervised, Access and Advisory Persons and extends to activities both within and outside their duties to our firm, including for an employee's personal account.

In addition to the above, our policies set limitations on and require reporting of gifts, entertainment, business meals, sponsorships, business building and charitable donations, whether given or received. Generally, our employees are prohibited from accepting or providing gifts or other gratuities from clients or individuals seeking to conduct business with us in excess of \$100.

Our personnel may, under certain conditions, be granted permission to serve as directors, trustees, or officers of outside organizations. Prior to doing so, approval must be provided by Compliance.

A complete copy of our Code of Conduct and/or our Code of Ethics is available by sending a written request to Westchester Capital Partners, LLC, Attn: Chief Compliance Officer, 100 Summit Lake Drive, Valhalla, NY 10595 or by contacting us at 914-741-5600.

#### Participation or Interest in Client Transactions

WCP and its affiliates act as investment adviser and/or subadviser to numerous client accounts, including Virtus Funds. WCP may invest in securities it also recommends to clients and may give advice and take action with respect to any Funds or accounts it manages that may differ from action taken by WCP on behalf of other Funds or accounts. As these situations may represent a potential conflict of interest, WCP has adopted restrictive policies and procedures, wherever deemed appropriate, to seek to detect and mitigate or prevent potential conflicts of interest. WCP is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling, any security that WCP, its affiliates or their respective Access Persons, as defined by the 1940 Act and by the Advisers Act, may buy or sell for its or their own account or for the accounts of any other client. WCP is not obligated to refrain from investing in securities held by Funds or accounts that it manages except to the extent that such investments violate the Code adopted by WCP. From time to time, WCP, its officers and employees may have interests in securities owned by or recommended to WCP's clients. This includes interests in Funds that may invest directly or indirectly, in securities of issuers which WCP or its affiliates may purchase. As these situations may represent a potential conflict of interest, WCP has adopted procedures relating to personal securities transactions and insider trading, that are reasonably designed to prevent actual conflicts of interest.

In addition, the existence of business relationships and investment practices creates the potential for conflicts of interest. WCP has adopted restrictive policies and procedures wherever deemed appropriate, to seek to detect and mitigate or prevent potential conflicts of interest. Certain known conflicts and WCP's handling of such conflicts are disclosed below.

WCP, directly or through VIA, may manage simultaneously parallel accounts in some cases with the same portfolio managers, with similar objectives, but with differing fees to VIA or WCP. WCP's policy is to manage each account independently and fairly, and recognizes and seeks to control the conflicts of interests inherent in such practices.

Virtus Shared Services, who provide administrative services to WCP, also will have information about WCP investments. Some WCP officers also have officer titles at other WCP affiliates.

WCP has a policy of not purchasing or recommending the purchase of securities issued by its parent company, Virtus.

To the best of its abilities, WCP reviews and monitors each individual situation to ensure that all clients are adequately protected against conflicts of interest. With respect to voting proxies for any such companies, WCP follows the conflicts provisions described in its Proxy Voting policy designed to eliminate or minimize any such conflict. For more information, see *Item 17 – Voting Client Securities*.

## **ITEM 12 - BROKERAGE PRACTICES**

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

Best execution is not limited solely to the consideration of the best available commission rate. In determining whether a particular broker or dealer is likely to provide best execution in a particular transaction, WCP may take the following factors, among other things, into consideration: the best net price available; the reliability, integrity and financial condition of the broker or dealer; the size of and difficulty in executing the order; and the value of the expected contribution of the broker or dealer to the investment performance of each Fund on a continuing basis.

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

### **Research and Other Soft-Dollar Benefits**

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

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

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

Brokerage and research services provided by brokers falling within the Section 28(e) safe harbor during the current year and last fiscal year includes, but is not limited to, proprietary research and research created or developed by a third-party that provides information regarding the economy, industries, sectors of securities, individual companies, federal and state legislative and regulatory developments and other developments that could affect the value of companies in which WCP has invested or may consider investing, statistical information, technical market action, pricing and appraisal services, risk-measurement analysis and performance analytics. Such research services are received primarily in the form of written reports, telephone contact and personal meetings with securities analysts, industry experts, law firms or company management. In addition, such research and brokerage services can be provided in the form of access to various computer-generated data and access to investment-related conferences and seminars. Brokerage and research services received also include quotation equipment and services and software to assist WCP to initiate and execute orders.

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

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

#### Trade Aggregation

When a Fund and the other accounts over which WCP or WCM exercises investment discretion are engaged in the simultaneous purchase or sale of the same securities, WCP and WCM may

aggregate the orders. WCP believes that such bunching generally facilitates the timely and efficient execution of trades. Moreover, WCP may be able to execute bunched orders at more favorable prices than would be realized when effecting a number of individual, sequential purchase or sale transactions. As a result of the practice of bunching orders, however, WCP and WCM often must allocate purchases and sales of securities among different client accounts following the execution of a bunched purchase or sale order. WCP maintains a policy of allocating the executions in a manner which seeks to treat all the accounts involved fairly and equitably over time. *See Allocations of Investment Opportunities Among Funds* below.

#### Allocation of Investment Opportunities Among Funds

In connection with its investment activities, WCP may encounter situations in which it must determine how to allocate investment opportunities among various Funds and other persons, which may include, but are not limited to, funds advised by WCM. In recognition of its fiduciary duties, it is the policy of WCP to allocate such investment opportunities on an equitable basis and in accordance with the written policies and procedures relating to the allocation of investment opportunities WCP has adopted. Typically, in order to address potential conflicts of interest associated with the aggregation of trades for multiple Funds, WCP, in conjunction with WCM, where applicable, will determine how an aggregated trade will be allocated among eligible Funds and/or accounts either (i) before or (ii) at the time the trade order is entered, where practicable. The pre-allocation of trades may not be practical or possible, for instance, due to the type of trade or the multiple legs involved in creating a certain position. In those situations, WCP and WCM will use certain regular methods of order allocation (“Default Methodologies”) to allocate the investment opportunity. The Default Methodologies include allocating the investment opportunity pro rata among eligible Funds based on each eligible Fund’s (i) total assets, (ii) existing position in the relevant security (or securities, as the case may be), or (iii) for forward currency contract trades, pro-rata based on the allocation of the corresponding trade(s) that the forward currency contract trade is hedging. However, the application of the Default Methodologies, may result in allocation on a non-pro rata basis and there can be no assurance that a Fund will participate in all investment opportunities that fall within its investment objectives. Allocation determinations are inherently subjective and give rise to conflicts of interest due to the inherent biases in the process. WCP makes allocation determinations based solely on WCP’s expectations at the time such investments are made, however investments and their characteristics may change and there can be no assurance that an investment may prove to have been more suitable for another Fund in hindsight.

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

In addition, where more than one Fund of WCP (or its affiliates) invest in the same investments, there can be no assurance that such parties will dispose of investments at the same time and on the same terms. Investments of different Funds disposed of at different times will likely be disposed of



at different valuations and, as a result, each Fund may realize different returns as compared to the same investment held by another Fund. These variations in timing may be detrimental to a Fund. At the same time, if WCP determines it is advisable for a Fund to exit an investment at the same time as another Fund of WCP or its affiliates, the term of which may expire sooner than the former Fund's, such Fund may dispose of its interest earlier than it ordinarily would have and may, as a result, experience lower returns than it otherwise may have earned on such investments.

#### Initial Public Offerings (IPOs)

WCP and WCM may be offered the opportunity to purchase securities offered in initial public offerings (also referred to as "new issue" securities) on behalf of TMF, VL, EDF, JNL, CEF, JARB, GMS or the Funds and based on, among other things, the trading activities or business relationships of TMF, VL, EDF, JNL, CEF, JARB, GMS or the Funds. Due to regulatory issues relating to the allocation of such offerings to pooled vehicles with certain investors, WCP does not expect to allocate any of those investment opportunities to the Funds with the exception of security types that are exempt from the new issue rules.

#### Error Correction

Although WCP takes all reasonable steps to avoid errors in our trading process, occasionally errors do occur. It is our policy that trade errors be identified and resolved promptly and in a manner consistent with WCP's fiduciary duty to its clients. Consistent with this duty, the overriding goal in trade-error resolution is to seek to place the client in the same position that the client would have been in had the error not occurred. There is no single method of calculating gains, losses or compensation due as a result of a trade error. The determination of the method is highly dependent on the facts and circumstances of the error in question. WCP will determine the most appropriate calculation methodology on a case-by-case basis in light of the specific facts and circumstances of each trade error.

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

Merger arbitrage and event-driven investing is a highly focused, dynamic type of investing which requires analysis of events surrounding a pending corporate reorganization. Arbitrage and event-driven positions generally are reviewed on a daily basis and the holdings of WCP's clients are adjusted accordingly. These accounts are managed by Roy Behren and Michael T. Shannon, Co-Presidents and Co-Chief Investment Officers of WCP.

Pursuant to the applicable investment management agreement which WCP has entered into, which may be amended from time to time, WCP may provide written monthly fact sheets, quarterly letters and annual reports to Fund investors, which may include a report of current positions, valuations, prices and transactions; commentary; a statement of total assets; and performance.

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

While WCP currently does not compensate any unaffiliated third parties for client referrals, WCP may have relationships with certain consulting firms and other intermediaries. For example, WCP may, from time to time, purchase products or services, such as investment management

performance data, from consulting firms. WCP may, from time to time, pay a fee for inclusion of information about the firm in databases maintained by certain unaffiliated third party data providers that in turn make such information available to their investment consultant clients. The payments and benefits described in this paragraph could give the firms receiving them and their personnel an incentive to favor WCP's investment advisory services over those of firms that do not provide the same payments and benefits.

WCP or an affiliate may from time to time pay event attendance or participation fees, underwrite charitable or industry events or provide gifts of value to, or at the request of, an organization or individual that offers or includes products or services of WCP or an affiliate in a particular program or refers or has referred a Client to WCP. All such activities will be done in compliance with applicable law and WCP's Gifts and Entertainment policy.

While not a client solicitation arrangement, WCP may from time to time enter into arrangements whereby it compensates consultants for recommending prospective investors to the Funds. These arrangements may provide that the consultants receive a fee based on a certain percentage of the investment advisory fee received by WCP from these referred Fund investors.

#### **ITEM 15 – CUSTODY**

WCP does not maintain physical custody of client assets. However, under the SEC's Custody Rule, WCP may be deemed to have custody due to WCP's ability to inform the custodian to remit investment advisory fees directly to WCP. Fund investors should expect to receive quarterly, or more frequent, account statements from the Funds' administrator. To the extent WCP provides periodic unaudited reports, clients should compare the account statements received from their qualified custodians with the reports, if any, received from WCP.

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

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

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

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

The proxy-voting guidelines describe WCP's general position on proposals. WCP manages Funds that pursue event-driven and/or merger arbitrage strategies, which are generally designed to profit upon the completion of a merger, reorganization or other corporate event. When WCP determines that a proposal affects its investment thesis or the Funds' investment objectives or strategies, WCP will vote proxies in a manner consistent with its investment thesis and to seek to maximize the economic value of the investment for the Funds. WCP may retain third-party services to provide research, summary information and/or recommendations with respect to proposals on which WCP must vote on behalf of its Fund clients. WCP utilizes a third-party service provider to assist with the ministerial act of voting proxies and reporting WCP's or the Funds' proxy voting record.

When securities are out on loan, they are transferred into the borrower's name and are voted by the borrower, in its discretion. However, if WCP has knowledge that an event will occur having a material effect on the Funds' investment in a loaned security, WCP will seek to call the loan in time to vote the securities or WCP will seek to enter into an arrangement which ensures that the proxies for such material events may be voted as WCP believes is in the Funds' best interests, as applicable. There can be no assurance that WCP will be able to call a loan in a manner that will allow WCP to vote on the related proposal in a timely manner.

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

## **ITEM 18 - FINANCIAL INFORMATION**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. WCP has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients. WCP does not require or solicit prepayment of advisory fees six months or more in advance. WCP does not act as custodian for any client account. WCP has not been the subject of a bankruptcy proceeding.