The Arbitrage Funds
ADVISED BY WATER ISLAND CAPITAL

ARBITRAGE FUND
Q4 2023 COMMENTARY

PORTFOLIO REVIEW

Arbitrage Fund (ARBNX) returned 3.37% for the fourth quarter of 2023 and 6.05% for the year. The S&P 500 index returned 11.69% and 26.29%, while the Bloomberg US Aggregate Bond index returned 6.82% and 5.53%, for the same periods, respectively. HFRI Merger Arbitrage – an index of hedge funds focused on the merger arbitrage strategy – returned 4.71% for the quarter and 6.22% for the year.

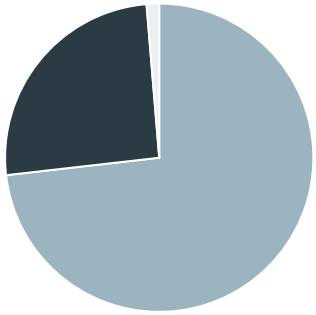
At quarter-end, the portfolio was invested in 50 active events, with 68% of the portfolio in Americas-based deals, 12% in Europe/Middle East/Africa (EMEA), and 4% in Asia-Pacific (APAC) transactions.

TRAILING RETURNS (ARBNX) AS OF 12/31/23

1-Year	6.05%
5-Year	3.16%
10-Year	2.71%

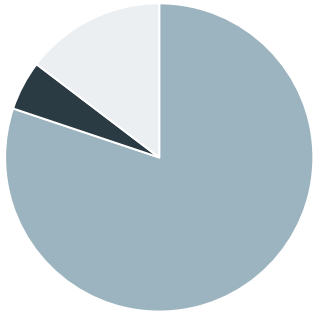
Performance greater than one year is annualized. Performance varies by share class.

DEAL CONSIDERATION AS OF 12/31/23



Subject to change. Reflects long alpha security exposure as percent of net assets.

GEOGRAPHIC EXPOSURE AS OF 12/31/23



Subject to change. Reflects long exposure as percent of net assets.

MARKET PERSPECTIVE

Despite widespread volatility over much of 2023, the fourth quarter saw broader markets undergo a powerful rally into year-end. The market surge began in the days following the Federal Reserve's (Fed) meeting which took place from October 31 to November 1. In his press conference following the conclusion of the meeting, Fed Chair Jerome Powell stated he saw "pretty significant progress" on inflation and noted that wage inflation had "come down significantly." Powell's comments turbocharged market optimism, and analysts who prior to November 1 had predicted the probability of a rate cut by mid-2024 at 50% raised their expectations to a 90% probability by December.

Amidst this environment, the fund delivered strong gains during Q4, benefiting from favorable events in several transactions. Pfizer successfully completed its $43 billion takeover of cancer-focused biotech company Seagen and Bristol-Myers Squibb's proposed $5.8 billion acquisition of cancer drugmaker Mirati Therapeutics received a swift antitrust approval, allowing the companies to accelerate their expected timeline for deal closure. Along with recent landmark outcomes in deals that succeeded in the face of heightened antitrust scrutiny, such as Microsoft's acquisition of Activision Blizzard, Broadcom's acquisition of VMWare, and Amgen's acquisition of Horizon Therapeutics, these positive developments in the portfolio are representative of the broader theme we continued to witness in the latter half of the year: despite numerous protracted investigations from current antitrust regulators, existing case law and not politics continues to determine the outcomes of mergers and acquisitions (M&A).

In our event-driven universe, the market for newly announced M&A activity was admittedly somewhat tepid over the past 18 months. While some of this was due to higher interest rates, cloudy economic forecasts also made it difficult for companies and their boards of directors to make confident corporate action decisions. Volatile stock markets likewise contributed to a decline in activity as buyers and sellers faced wide valuation gaps. Furthermore, before the recent series of high-profile losses by the US Federal Trade Commission (FTC) and US Department of Justice (DOJ) at trial, the aggressive stance of current antitrust regulators likely had a chilling effect on consolidation. Nonetheless, although deal volume for the calendar year reached its lowest total in a decade according to Bloomberg data, M&A began to show signs of a revival in the latter half of the year. Perhaps emboldened by the courtroom successes of the likes of Microsoft, Q4 bore witness to the announcement of two of the largest transactions of 2023, both in the energy sector – Exxon's $68 billion acquisition

Performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, visit https://arbitragefunds.com or call (800) 295-4485. Returns shown above include the reinvestment of all dividends and capital gains. Total Annual Fund Operating Expense for ARBNX is 1.35%. Total Annual Fund Operating Expense excluding the effect of interest, dividends on short positions, and acquired fund fees and expenses for ARBNX is 1.25%.

of Pioneer Natural Resources and Chevron's $59 billion acquisition of Hess – and we expect activity at this end of the market cap spectrum to remain prevalent in the months ahead. Furthermore, a flurry of activity in the final three months of the year resulted in a strong fourth quarter – and the only quarter of 2023 to experience a year-over-year increase in M&A activity.

Looking ahead, we see several bright spots for merger arbitrage in 2024. There are motivated strategic acquirers with strong balance sheets waiting in the wings, looking to take advantage of dislocated target valuations. In the past year, the level of take-private transactions reached its highest since 2010, and private equity firms are still sitting on nearly $3 trillion in dry powder, including an estimated $1 trillion earmarked for buyouts. The calming of inflation and anticipated downward trend in interest rates should serve as a tailwind for deal flow. Lastly, the merger arbitrage landscape is currently less crowded than it was a year ago, with several participants having exited the strategy during 2023.

Yet at the same time, as is often the case, we see reason to remain cautious. Corporate boardrooms detest little more than uncertainty, and geopolitical tensions and conflicts can be a significant headwind to dealmaking. With ongoing wars between Ukraine/Russia and Israel/Hamas, and upcoming national elections in the US, European Union, India, and possibly the UK, there is potential for political upheaval and much change in 2024. During this time, certainty may be a scarce asset. Furthermore, we do not believe we've heard the last of the current administration's antitrust watchdogs, who we anticipate will continue to grab headlines in an election year, despite having achieved little to date. At the very least, even if they don't succeed in blocking transactions, their efforts are likely to extend deal timelines.

For the broader markets, we anticipate that interest rate moves will continue to be the primary driver of price action in 2024. Although volatility has subsided since November, we expect geopolitics and the 2024 US presidential election to also dictate investor sentiment and market direction. If recent history is any roadmap, then at least several bouts of heightened volatility throughout the year are likely. As such, we believe it remains prudent for investors to consider alternative strategies such as merger arbitrage. Historically, merger arbitrage has not been correlated to traditional asset classes, as it exchanges market risk for idiosyncratic deal risk; the strategy has historically generated returns with low volatility, as deal spreads react to deal news flow rather than market moves; and elevated interest rates have historically provided a tailwind to returns. Overall, with potentially more robust deal flow on the horizon, we believe merger arbitrage is on the upswing and it presents a compelling option for investors to diversify their portfolios.

QUARTERLY DEAL SPOTLIGHT

TOP CONTRIBUTORS

VMware Inc / Broadcom Inc — In May 2022, VMware – a US-based software company specializing in cloud computing and virtualization technology – agreed to be acquired by Broadcom – a US-based semiconductor manufacturer focused on telecommunications and storage products – for $61.4 billion in cash and stock. The companies previously extended the termination date of this deal, as investigations from multiple global antitrust regulators caused lengthy delays in receiving clearances in several jurisdictions. We maintained our exposure throughout the deal given our conviction that it did not violate any competition laws. Despite the in-depth reviews, the deal ultimately received all required regulatory approvals and closed in November 2023, leading to gains for the fund.

Silicon Motion Technology Corp / MaxLinear Inc — Silicon Motion Technology is a Taiwan-based fabless semiconductor company that designs and develops high-performance, low-power semiconductor solutions for the multimedia consumer electronics market. In May 2022, the company agreed to be acquired by MaxLinear – a US-based provider of radio-frequency analog and mixed-signal semiconductor solutions for broadband communications applications – for $4.0 billion in cash and stock. The deal received all required shareholder and regulatory approvals, including in China, where the transaction had undergone a protracted review and whose approval was the final hurdle to close the deal. However, mere hours after China approval had been received, in a surprising move, MaxLinear terminated the merger agreement, claiming a material adverse effect had occurred in Silicon Motion's business. It appeared unlikely that this was simply a tactic for MaxLinear to seek a price cut, and Silicon Motion seemed disinclined to take MaxLinear to court in an attempt to force the company to close the deal. In response, Silicon Motion rejected MaxLinear's claim, stating MaxLinear breached its own obligations under the merger agreement, and filed a notice of arbitration in Singapore for the wrongful termination seeking termination fees and additional monetary damages. While we have maintained exposure post deal termination due to the potential for a positive arbitration outcome for Silicon Motion, the company has simultaneously seen its underlying fundamentals significantly improve, which led to gains for the fund during Q4.

Seagen Inc / Pfizer Inc — In March 2023, Pfizer – one of the premier biopharmaceutical companies in the world – reached an agreement to acquire Seagen – a US-based biotechnology company focused on the development of innovative therapies for the treatment of cancer – for $46 billion in cash, seeking to double the scale of its oncology platform. By December, the companies had received all required shareholder and regulatory approvals, after which the transaction closed, leading to gains for the fund.

TOP DETRACTORS

PNM Resources Inc / Avangrid Inc — In October 2020, PNM Resources – a US-based electric utility company primarily serving New Mexico and Texas – agreed to be acquired by Avangrid – a local peer serving New England and New York – for $4.0 billion in cash. The deal required several regulatory approvals at both the state and federal level – all but one of which had signed off by December 2021, when the Public Regulation Commission ("PRC") of New Mexico rejected the merger. As there was still a path for the companies to move forward and gain PRC approval, in January 2022 Avangrid filed an appeal and extended the date of the merger agreement to 2023. The deal spread experienced volatility at various points during the course of 2023 as investors feared Avangrid would walk away as the extended termination date neared, despite public statements from Avangrid reaffirming its commitment to the transaction. Ultimately, these fears proved prescient – at the start of the new year, with no clear timing in the receipt of any decision on their appeal of the PRC denial, Avangrid capitulated and finally exercised its right to terminate the merger.

Capri Holdings Ltd / Tapestry Inc — Capri Holdings is a multinational fashion holding company that owns leading luxury goods, apparel, and footwear brands such as Michael Kors, Versace, and Jimmy Choo. In August 2023, the company agreed to be acquired by Tapestry – a multinational fashion holding company which owns brands such as Kate Spade and Coach – in an all-cash transaction valued at $10 billion. The deal spread experienced volatility during Q4 amidst a softening luxury goods market and reports the FTC had requested additional information from the companies, thus extending the regulatory review process and driving fears the regulator could raise issues with the impact of consolidation on the companies' respective labor forces. We are maintaining our exposure as we continue to believe the transaction will receive the necessary approvals, with completion expected in the first half of 2024.

Hess Corp / Chevron Corp — In October 2023, Hess Corp – a US-based global energy exploration and production company – agreed to be acquired by local peer Chevron Corp (one of the largest descendants of Standard Oil) in an all-stock transaction worth $59 billion. The deal, which is subject to shareholder approval, regulatory approvals and other customary closing conditions, would add to Chevron's portfolio a major oil field in Guyana – which has become a major producer in recent years – as well as shale properties in the North Dakota Bakken Formation. The spread experienced volatility during Q4 due to the launch of an investigation into the deal by the FTC based on concerns it could harm competition and raise oil and gas prices for consumers, as well as geopolitical risks stemming from threats by Venezuela to seize mineral-rich regions from neighboring Guyana. We are maintaining our exposure as we still have conviction in the transaction, though we are monitoring the situation closely.

GLOSSARY: *Deal flow* refers to the volume of announced mergers and acquisitions activity. A *deal spread* is the difference between the price at which a target company's shares currently trade and the price an acquiring company has agreed to pay. *Dry powder* refers to cash reserves available to be deployed for investment.

IMPORTANT INFORMATION

Investors should carefully consider the fund's investment objectives, risks, and charges and expenses before investing. To obtain a prospectus containing this and other important information, visit https://arbitragefunds.com or call (800) 295-4485. Read the prospectus carefully before investing.

RISKS: Investments are subject to risk, including possible loss of principal. There can be no assurance that the fund will achieve its investment objectives. The fund uses investment techniques and strategies with risks that are different from the risks ordinarily associated with equity investments. Such risks include merger arbitrage risk (in that the proposed reorganizations in which the fund invests may be renegotiated or terminated, in which case the fund may realize losses); short sale risk; active management risk; concentration risk; high portfolio turnover risk (which may increase the fund's brokerage costs, which would reduce performance); foreign securities risk; market risk; sector risk; derivatives risk; hedging transaction risk; counterparty risk; temporary investment/cash management risk; swap risk; options risk; liquidity risk; investment company and ETF risk; leverage risk; small and medium capitalization securities risk; and currency risk. Risks may increase volatility, increase costs, and lower performance.

Arbitrage Fund top ten holdings as of December 31, 2023: Albertsons Cos Inc; Amedisys Inc; Capri Holdings Ltd; Hess Corp; Pioneer Natural Resources Co; RPT Realty; Sovos Brands Inc; Spirit Realty Capital Inc; Splunk Inc; Water Island Event-Driven Fund. Top ten holdings represent 47.0% of the portfolio. Holdings are subject to change. Current and future holdings are subject to risk.

The S&P 500 Total Return Index (S&P 500) is an index of US equities meant to reflect the risk/return characteristics of the large cap universe, and is one of the most commonly used benchmarks for the overall US stock market. The Bloomberg US Aggregate Bond Index (Agg) covers the US investment grade fixed rate bond market. The HFRI Merger Arbitrage Index includes funds which employ an investment process primarily focused on opportunities in equity and equity-related instruments of companies which are currently engaged in a corporate merger or acquisition transaction. Indexes are unmanaged and one cannot invest directly in an index. Indexes are shown for informational purposes only. The S&P 500 and Agg are not intended to, and do not, parallel the risk or investment style of the fund's investment strategy.

Commentary represents the manager's opinion and contains certain forward-looking statements which may be different than actual future results, is subject to change, and is under no obligation to be updated. Commentary should not be regarded as investment advice or a recommendation of any security or strategy. Certain securities which were not, or are no longer, held in the portfolio may be discussed for informational purposes only.

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