The Arbitrage Funds
ADVISED BY WATER ISLAND CAPITAL

WATER ISLAND CREDIT OPPORTUNITIES FUND

Q3 2025 COMMENTARY

PORTFOLIO REVIEW

Water Island Credit Opportunities Fund (ACFIX) returned 1.26% for the third quarter of 2025 and 3.88% for the year-to-date period. The Bloomberg US Aggregate Bond index returned 2.03% and 6.13%, while the ICE Bank of America US High Yield index returned 2.40% and 7.06%, for the same periods, respectively.

At quarter-end, the effective duration of the portfolio was 0.7 years, with a duration to event (our internal measure of the duration of the portfolio based on expected timing to completion of a catalyst) of 0.7 years.

MANAGER COMMENTARY

Politics, tariffs, and fiscal deficits did little to stop the upward trajectory of markets during Q3, while a combination of strong corporate profits, US curve steepening, and artificial-intelligence-themed investments fueled returns. Further adding to market optimism have been recent changes to depreciation rules that will create tailwinds for manufacturing, construction, agriculture, and transportation – as these industries can now immediately expense a wide range of tangible assets including heavy machinery, commercial vehicles, and new factory construction. Toward the end of the quarter the Federal Reserve indicated that rate cuts could come at a slower pace than markets had initially anticipated, yet even this shift did little to impact investor sentiment, with a prevailing view that predictability is just as important as expected rate levels and that rates will still fall slowly over the next few quarters.

While strategies with longer duration and higher spreads outperformed during the quarter, the fund remained steady with a continued focus on idiosyncratic investments. Throughout Q3 we saw a significant pickup in merger activity with multi-billion-dollar deal announcements from Union Pacific and Norfolk Southern, CyberArk Software (by Palo Alto Networks), and Electronic Arts and Dayforce (both going-private transactions). Lower rates, large amounts of debt and equity capital, and a more business-oriented administration have contributed to this environment, while the rebound in stock market prices and stability in debt markets since April have given corporate boards and managements the runway needed for transformational deals.

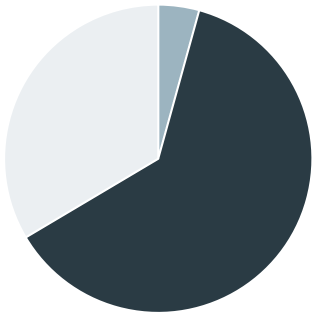
For the fund, 2025's broadest theme has come from telecom-related asset sale announcements, which offered several attractive investments. Lumen, CommScope, and EchoStar each announced distinct asset sales this year, but their reasons for those sales came from similar necessities. These companies were part of the traditional cable and telecom sectors, but after years of softening revenues, cord-cutting, elevated leverage, and high capital expenditures, many were left in various stages of distress. For Lumen and EchoStar, balance sheet issues were initially addressed via large-scale debt exchanges, while CommScope avoided this step by selling assets and issuing new debt tranches to satisfy nearer-term obligations. Additionally, in Q2 of this year, Lumen announced the sale of its consumer business to AT&T for $5.8 billion – which seemed to kick-off sector-wide asset sale programs among its peers.

In August, CommScope announced the sale of its Connectivity & Cable Solutions business to

TRAILING RETURNS (ACFIX) AS OF 9/30/25	
1-Year	5.00%
5-Year	3.89%
10-Year	3.72%

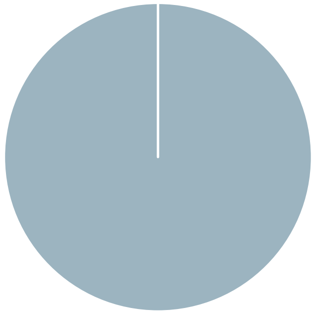
Performance greater than one year is annualized. Performance varies by share class.

CREDIT QUALITY AS OF 9/30/25



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

GEOGRAPHIC EXPOSURE AS OF 9/30/25



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

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 ACFIX is 1.38%. The adviser has contractually agreed to waive fees to limit total annual operating expenses, excluding taxes, interest, dividends on short positions, brokerage commissions, acquired fund fees and expenses, and other costs incurred in connection with the purchase or sale of portfolio securities, for ACFIX to 0.98% until September 30, 2026, unless terminated earlier by the Board of Trustees. Without such fee waivers, performance numbers would have been reduced.

Amphenol Corp for $10.5 billion. As with Lumen, these sale proceeds will be used to retire secured debt, which created opportunities for short-term debt investments for the fund. Most interesting of these asset sales, however, was the announcement by EchoStar (also in August) that it planned to sell its 3.45 GHz spectrum and 20 MHz of low-band 600 MHz spectrum to AT&T for $23 billion. While this purchase will accelerate AT&T's 5G and fixed-wireless home internet services, the impetus for this – and the later announced sale of EchoStar's AWS-3 and AWS-4 spectrum – appear to have been prompted by SpaceX, which allegedly lodged complaints with the Federal Communications Commission about EchoStar's lack of speed in deploying the spectrum that it owned. SpaceX and its Starlink service needed this spectrum to expand its direct-to-cell service, allowing it to provide 5G mobile connectivity directly to standard phones from space. Over the past few decades, Charlie Ergen, EchoStar's founder, had purchased billions of dollars of spectrum during government license auctions, but sector headwinds and heavy debt ultimately created significant pressure on his companies' respective capital structures. Perhaps to assuage regulators, or perhaps to take advantage of attractive bids, two weeks following the spectrum sale to AT&T, EchoStar announced that it would sell its AWS-4 and H-block spectrum licenses to SpaceX/Starlink for $8.5 billion in cash and $8.5 billion in SpaceX stock. The deal underscored the value of such unique assets, and it unlocked valuable capital for EchoStar to address its substantial debt burdens. For the fund, these transactions have created attractive opportunities as several of the bonds and loans that are secured by the various spectrum assets will need to be repaid upon completion of the various sales.

Along with the many definitive mergers and assets sales that were announced during Q3, we also saw strong evidence of this trend continuing as multiple headlines emerged during the quarter which referenced potential merger activity involving TK Elevator, Hologic, Warner Brothers Discovery, and Treehouse Foods. Strong credit markets, which have led to record levels of refinancing and capital raising activities, are also very supportive of the current deal environment.

Yet despite the positive tone we see for catalyst-driven investments, we certainly understand why investors have begun to question market valuations and whether fiscal budgets, tariffs, and political discord will impact future volatility and returns. Most conversations we have with investors focus on tighter credit spreads and high equity valuations, and whether it is time to diversify investments, take profits, or seek more conservative investment approaches. While we do not attempt to predict market tops or bottoms, we feel the fund – with its strategy of investing in situations that are less correlated to the market – will continue to find a home with those concerned about overall market exposure. We cannot tell people to take money off the table, but we feel we have created a strategy that can help investors to balance risks that they have in their own portfolios by providing return streams and yields from investments in traditional fixed income securities, yet which are predicated on the outcomes of idiosyncratic corporate events rather than broader market direction.

QUARTERLY DEAL SPOTLIGHT

TOP CONTRIBUTORS

EchoStar Corp — EchoStar – a US-based telecommunications company providing satellite communications, wireless telecommunications, internet services, and multichannel video programming – has purchased billions of dollars of wireless spectrum during government license auctions, reportedly with the intent of eventually launching a nationwide wireless network. Sector headwinds and the ensuing heavy debt load, however, ultimately put significant pressure on the company's capital structure. The company now appears set to officially back away from those plans, as in August 2025, EchoStar announced its intent to sell its 3.45 GHz spectrum and 20 MHz of low-band 600 MHz spectrum to AT&T for $23 billion. The following month, the company also announced the sale of its AWS-3 and AWS-4 spectrum to SpaceX for $8.5 billion in cash and $8.5 billion in SpaceX stock. These deals, which will unlock valuable capital for EchoStar to address its substantial debt burdens, have created multiple hard catalyst investment opportunities for the fund as several of the bonds and loans that are secured by the various spectrum assets will be required to be repaid upon completion of the various sales.

Spirit AeroSystems Inc — Spirit Aerosystems – one of the world's largest manufacturers of aerostructures for commercial airplanes – is in the process of being acquired by Boeing Co, as Boeing continues to recover and modify its manufacturing process from issues related to its 737 Max program. Spirit, which had once been part of Boeing, will be reintegrated and positioned to enhance Boeing's quality control. During the quarter, our position in Spirit's secured term loans and bonds benefited from higher market conviction that the transaction would close before the end of 2025.

Frontier Communications Parent Inc — Frontier Communications is a US telecommunications company offering broadband internet and digital television services in 25 states. In September 2024, the company reached an agreement to be acquired by Verizon Communications – the largest telecommunications company and largest wireless carrier in the US – for $19.6 billion in cash. While the deal continues to gain required regulatory approvals across the country, its ultimate timeline will be closely tied to approval from the California Public Utility Commission, which we expect to come in the first half of 2026. In the meantime, we have the benefit of owning Frontier's 8.75% first lien bonds, which provide a combination of current income with downside mitigation.

TOP DETRACTORS

Credit Market Hedge — From time to time, in addition to various issuer-specific hedges, we may choose to implement broader market hedges in the portfolio. These positions may include a combination of credit, interest rate, equity, and ETF securities designed to help dampen portfolio volatility or mitigate downsides, assisting with the hedging of softer catalyst events. While small losses can and do occur, they are typically more than offset by the investments that they were meant to hedge. These positions behaved as expected over the period, contributing small mark-to-market losses which were offset by gains in the bonds they were meant to protect.

Getty Images Inc— Getty Images is a world-renowned leader in visual media content providing stock images, editorial photography, and digital media for businesses and consumers. Our position in the company's bonds was a long-time investment for the portfolio and while it has been a positive contributor to the fund overall, it did detract slightly from returns during Q3. We ultimately opted to exit our exposure before quarter-end as we did not want to continue underwriting increasing risks stemming from ongoing regulatory delays in Getty's merger with Shutterstock as well as the existential threat to Getty's business by rapidly evolving artificial-intelligence-driven photography and imagery generation platforms.

Live Nation Entertainment Inc — Live Nation Entertainment – created in 2010 following the merger of Live Nation and Ticketmaster – is the multinational giant behind the promotion, operation, and management of ticket sales for live entertainment around the world. We own a position in the company's bonds as a yield-to-call investment, which detracted from returns slightly during the quarter due to the impact of specific hedges on the position. Should market sentiment shift, we anticipate these hedges will prove beneficial.

GLOSSARY: A *convertible bond* is a bond that the holder can convert into a specified number of shares of common stock in the issuing company or cash of equal value. A *credit spread* is the difference between the yield of two different debt instruments with the same maturity but different credit ratings. *Duration* is a measure of a bond's price sensitivity to changes in interest rates, with each year of duration roughly equating to a 1% change in price inverse to a 1% change in yield. *First lien* bonds are debt that is secured by collateral, the holders of which are typically paid back before all other debt holders. *High yield* refers to a bond with a credit rating lower than investment grade. *Hard catalysts* are situations with more defined potential outcomes and higher probabilities of reaching a successful conclusion. *Soft catalysts* are situations with less defined potential outcomes and relatively lower probabilities of reaching a successful conclusion. *Mark-to-market* refers to the act of measuring value using the most recent market price.

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 credit investments. Such risks include event-driven risk; 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); active management risk; credit risk; convertible security risk; liquidity risk; market risk; sector risk; interest rate risk; short sale risk; hedging transaction risk; large shareholder transaction risk; leverage risk; high portfolio turnover risk (which may increase the fund's brokerage costs, which would reduce performance); counterparty risk; temporary investment/cash management risk; swap risk; options risk; preferred securities risk; investment company and ETF risk; derivatives risk; currency risk; and foreign securities risk. Risks may increase volatility, increase costs, and lower performance.

Water Island Credit Opportunities Fund top ten holdings as of September 30, 2025: Boeing Co/The 6%; Boost Newco Borrower LLC 7.5% 1/15/2031; Chart Industries Inc 7.5% 1/1/2030; CommScope LLC FR 12/17/2029; EchoStar Corp 6.75% 11/30/2030; Frontier Communications Holdings LLC 8.75% 5/15/2030; Spirit AeroSystems Inc 9.75% 11/15/2030; Spotify USA Inc 0% 3/15/2026; Uber Technologies Inc 0% 12/15/2025; Uniti Group LP / Uniti Group Finance 2019 Inc / CSL Capital LLC 10.5% 2/15/2028. Top ten holdings represent 35.0% of the portfolio. Holdings are subject to change. Current and future holdings are subject to risk.

Bloomberg US Aggregate Bond Index (Agg) is a broad index of domestic investment grade fixed income securities. ICE Bank of America US High Yield Index (ICE HY) is a broad index of high yield corporate bonds. Indexes are unmanaged and one cannot invest directly in an index. Indexes are shown for informational purposes only. Indexes 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.