Which Boats Will Rise With The Interest Rate Tide?

Fellow Shareholders,

We have often discussed the effects of a theoretical rising interest rate environment on capital assets. That possibility has now become reality. Rising rates have historically, and by definition, reduced the price of fixed income securities, while absolute return strategies such as merger arbitrage typically provide increased rates of return corresponding with the rise in rates.

The past two months provide tangible evidence of this concept. Aware that our track record extends over multiple cycles, many of our investors have asked us over the past year to discuss and possibly quantify our performance during prior rising rate environments. Since many of our investors use The Merger Fund® as a fixed income diversifier, we thought we would share our perspective as well as some data.

November "Shock"

While Donald Trump's victory might have been a surprise, the sharp spike in interest rates and accompanying downdraft in bond prices has been equally shocking. Contributing to the move were increased inflationary fears and the Federal Reserve Bank's impending increase in the Federal Funds Rate. Notably, during the single week ended November 11, The Bank of America Global Broad Market Index, which tracks 24,000 bonds around the world, **lost $1.14 trillion** in value[1] (that is not a typo!).

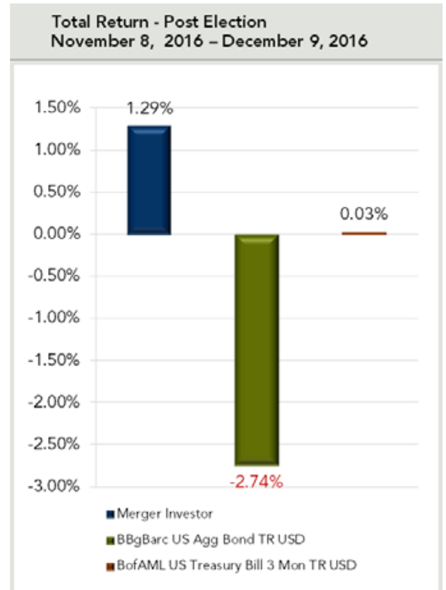
This chart illustrates the performance of a hypothetical $2,000 investment made in the Fund on October 31, 2016. It assumes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales charge or redemption fees. This chart does not imply any future performance. To see standardized performance please see *Important Disclosures* on page 5.

The trend has continued through November and into December. The Barclays Aggregate Bond Index, a widely-used proxy for fixed income markets, fell more than 2.71% as the 10-year Treasury yield increased by 0.63% through December 9, 2016.[2]

In contrast, The Merger Fund®, an absolute return fund designed to minimize volatility and drawdowns relative to both the fixed income and equity markets, posted a gain of 1.55% during the same period.

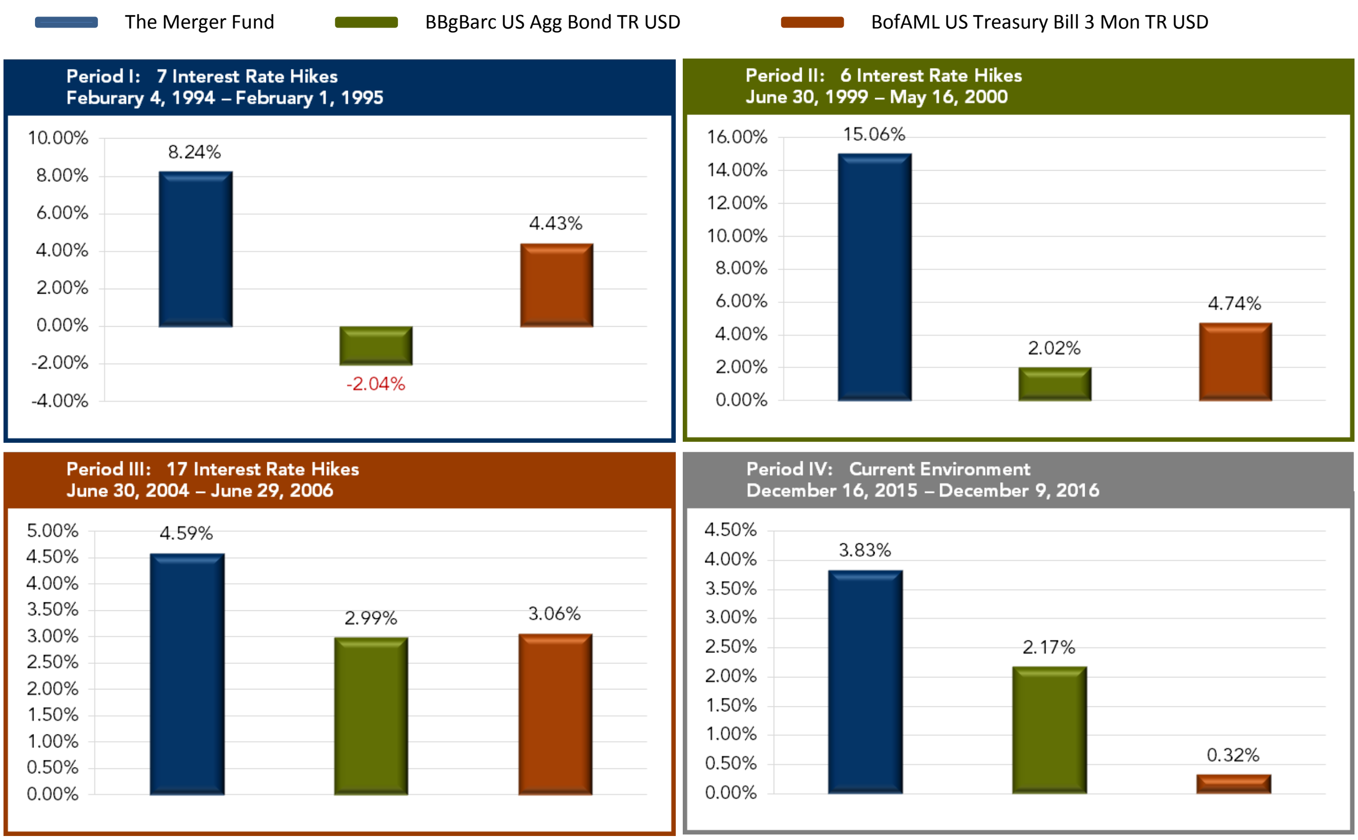
[1] Bloomberg, Bonds plunge by $1 Trillion This week as Trump Seen Game Changer, November 11, 2016
[2] Source: https://www.treasury.gov, 10-year yield on October 31, 2016 was 1.84%; on December 9, 2016 it as 2.47%.

The post-election performance reflects the shifting tide. The "Trump Card" has been played and fixed income investors have begun taking chips off the table before they potentially give back even more, selling $10.7 billion of U.S. bond funds in just the two weeks following the election.[3] Economists project that the Trump Administration's policies will trigger a period of economic growth, which will be accompanied by a historically normalized (read: higher) interest rate environment, with the Federal Reserve incrementally continuing its rate hike policy.



The directional movement of various strategies during the recent bond drawdown is typical of a rising rate period. The mechanics behind merger arbitrage resilience in the face of rising rates has been repeatedly discussed in our investor letters. The charts below illustrate this point in more detail; we reviewed four distinct periods of rising rates since 1994 and their impact on bond values. In all periods, we found that bond prices underperformed relative to The Merger Fund®.

Total Return (%) During Periods of Increasing Fed Fund Rates[4]

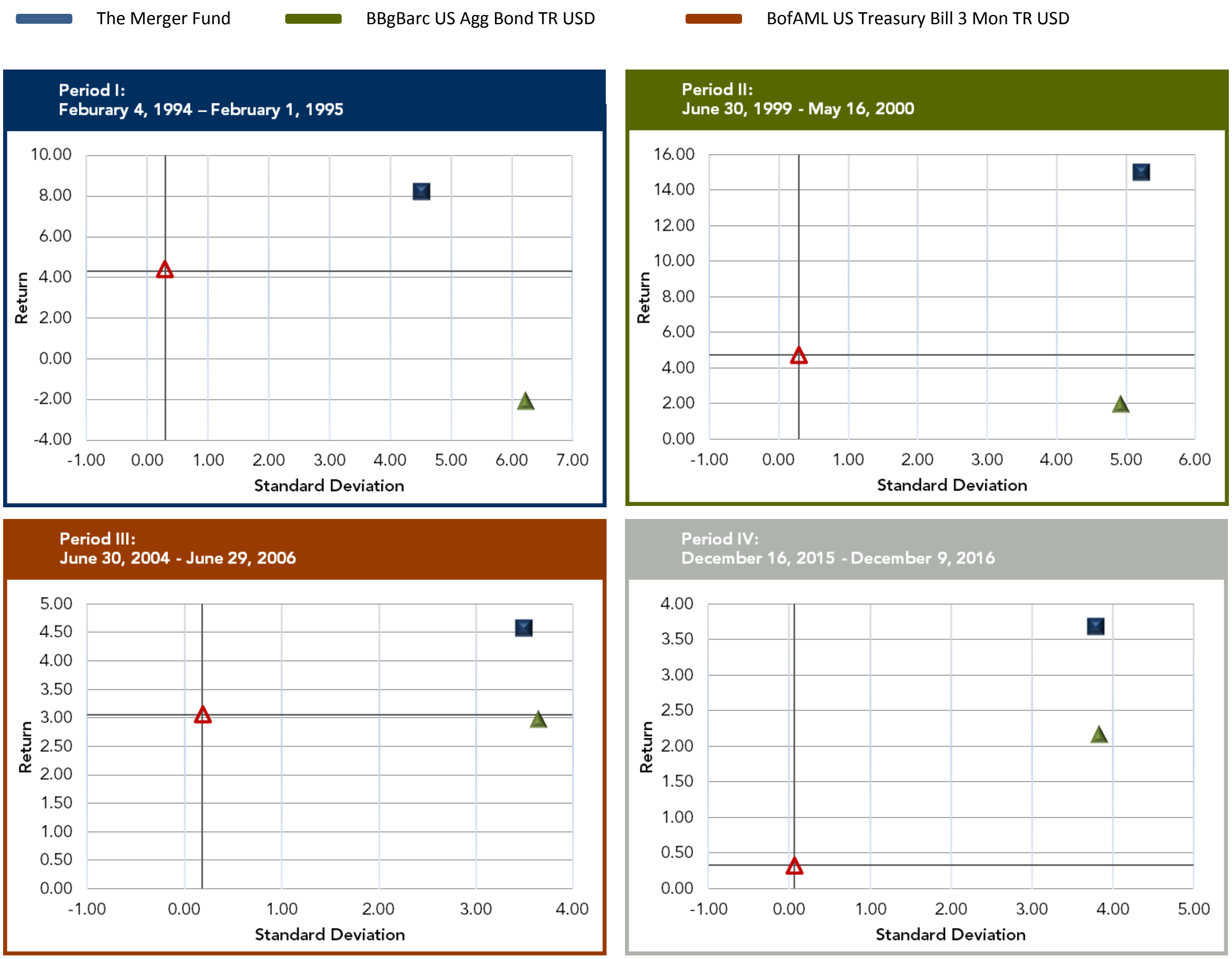


[3] Bond Market Carnage Breeds Few Bold Predictions for Rebound, Bloomberg News November, 28,2016

[4] Sources: Nuveen and Morningstar. Data shown apply to actual times periods noted in the charts.

The Merger Fund® provided excess performance, yet with a similar risk profile (as measured by standard deviation) as the Barclay's US Aggregate Bond Index. In fact, over all four rising rate periods, The Merger Fund® had a similar or lower standard deviation than the Barclays Index:

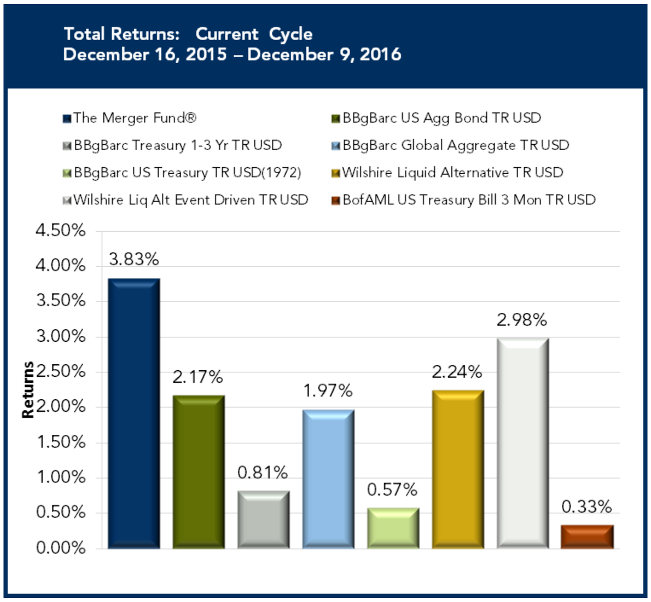
Risk/Reward During Periods of Increasing Fed Fund Rates[5]



5 Sources: Nuveen and Morningstar. Data shown applies to actual times periods noted in the charts.

Return Potential: Attractive on Both a Risk- adjusted and Relative Basis

Although we appear to be early in this cycle, the longer-term chart on the following page illustrates how the broader fixed income indices have performed, and how other absolute return funds compare, using the Wilshire Liquid Alternative Index as a proxy.



The takeaway is that we appear to be entering the type of period where bond investments would continue to underperform. For some investors, fixed income is a permanent component of their portfolio, and the market value of that principal is now at risk. Employing an absolute return product such as The Merger Fund®, with a negative correlation to bonds yet similar volatility, may help diversify and potentially hedge some of this risk.

Additionally, although equities are now at all-time highs, our Funds are constructed to maintain their historically low correlation with the stock market in the event of a significant downturn.

The data we have provided indicates that the Fund, if successful, can perform the dual roles of lowering portfolio volatility as well as cushioning drawdowns in varying market environments. In this respect, it serves as a valuable tool to improve portfolio outcomes and enhance risk-adjusted returns.

We are not suggesting that investors vacate long-term strategic planning or speculate by altering their asset allocation. However, investing in a low volatility vehicle such as The Merger Fund® can minimize the drags of inflation and rising interest rates on bond and equity returns, while retaining the opportunity to compound positive returns over time.

In conclusion, it would be timely to consider adding a diversifier such as The Merger Fund® as a "shock absorber" to an investor's investment portfolio, particularly for those at or near retirement – who have less tolerance for volatility and capital losses – and who can benefit from the addition of a strategy which seeks absolute returns throughout market cycles.

Although the past 18-24 months have been challenging for investors in active management strategies, particularly within the liquid alternative space, the current environment highlights the value proposition that can be delivered via minimally correlated funds. We believe the tide has begun to turn for managers focused on risk adjusted returns.

To that end, we thank you for your business, as we believe that your patience and conviction will continue to be rewarded in the coming months and years.

Roy Behren Mike Shannon

Past performance is not indicative of future results. See Important Disclosures for more detail.

IMPORTANT DISCLOSURES

Trailing Returns as of Last Quarter End				
	3Q 2016	1 Year	5 Years	10 Years
Merger Investor	1.50%	2.77%	2.44%	2.54%
BBQBarc US Agg Bond TR USD	5.80%	5.19%	3.08%	4.79%
BofAML US Treasury Bill 3 Mo TR USD	0.24%	0.27%	0.10%	0.92%
BBgBarc US Treasury TR USD (1972)	5.07%	4.09%	2.18%	4.45%
BBGBarc US Treasury 103 Yr TR USD	1.33%	0.88%	0.70%	2.27%
WCM Alternatives Event-Driven Instl	1.56%	3.11%		
BBgBarc US Treasury Bill 1-3 Mon TR USD	0.19%	0.21%	0.07%	0.84%
BofAML Global Broad Market TR USD	9.62%	8.56%	1.91%	4.35%
Wilshire Liq Alt Event Driven TR USD	1.93%	0.44%		
Wilshire Liquid Alternative TR USD	1.45%	1.29%		

The Wilshire Liquid Alternative Index and The Wilshire Liquid Alternative Event Driven Index were launched July 2014. Performance for the period July 31, 2014 through September 30 2016 was -1.26 and -3.73 respectively. WCM Alternatives: Event Driven Fund was launched January 2, 2014, since inception performance through September 20, 2016 was 1.19%

Performance data quoted represents past performance; past performance does not guarantee future results. The performance results portrayed herein reflect the reinvestment of all interest, dividends and distributions. The 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 their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data included herein for periods prior to 2011 reflect that of Westchester Capital Management, Inc., the Fund's prior investment advisor. Messrs. Behren and Shannon, the Fund's current portfolio managers, have served as co-portfolio managers of the Fund since 2007. Performance data current to the most recent month-end may be obtained by calling (800) 343-8959 or by visiting www.westchestercapitalfunds.com.

The total annual operating expense ratio of The Merger Fund's Investor class shares was 1.90%."The Advisor has contractually agreed to waive a portion of its management fee until April 30th, 2017 if its assets exceed certain thresholds, beginning at $1.5 billion. Total annual operating expenses of the Fund's Investor Class shares of 1.77% were applicable to investors. After applicable fee waivers and before certain investment-related expenses (including acquired fund fees and expenses of 0.03% and short interest and dividend expenses of 0.40%), total annual operating expenses of the Fund's Investor Class shares were 1.34%. The total annual operating expense ratio of the WCM Alternatives Event-Driven Fund was 2.27%. The Adviser has contractually agreed to waive its investment advisory fee and to reimburse the Fund for other ordinary operating expenses to the extent necessary to limit ordinary operating expenses (not including brokerage commissions, short dividends, interest expense, taxes, acquired fund fees and expenses or extraordinary expenses) to an amount not to exceed 1.74%. Total annual operating expenses of the Fund's Institutional Class shares of 2.13% were applicable to investors. Expense ratios are as of the May 2, 2016 prospectus.

Must be preceded or accompanied by a prospectus

Diversification does not assure a profit, nor does it protect against a loss in a declining market.

Mutual fund investing involves risk. Principal loss is possible. Merger-arbitrage and event-driven investing involves the risk that the adviser'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 the Funds' return on the investment will be negative. Investments in foreign companies may entail political, cultural, regulatory, legal, and tax risks different from those associated with comparable transactions in the United States. The frequency of the 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 may result in higher brokerage commissions, dealer mark-ups and other transaction costs. The higher costs associated with increased portfolio turnover may offset gains in the Fund's performance. The Funds' may enter into short sale transactions for, among other reasons, purposes of protecting against a decline in the market value of the acquiring company's shares prior to the acquisition completion. If the price of a security sold short increases between the time of the short sale and the time the Fund covers its short position, the Fund will incur a loss. The amount of a potential loss on an uncovered short sale transaction is theoretically unlimited. Debt securities may fluctuate in value due to, among other things, changes in interest rates, general economic conditions, industry fundamentals, market sentiment and the financial condition of the issuer, including the issuer's credit rating or financial performance. Derivatives may create leverage which will amplify the effect of the performance of those instruments on the Funds' and may produce significant losses. The Funds' hedging strategy will be subject to the Funds' investment adviser's ability to assess correctly the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged.

References to other mutual funds do not construe an offer of those securities. Any tax or legal information provided is merely a summary of our understanding and interpretation of some of the current income tax regulations and is not exhaustive. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. Neither the Funds' nor any of their representatives may give legal or tax advice.

The views expressed are as of December 12, 2016 and are a general guide to the views of Westchester Capital Management, are subject to change, are not guaranteed and should not be considered recommendations to buy or sell any security. This document does not replace portfolio and fund-specific materials.

Absolute return strategies are not intended to outperform stocks and bonds during strong market rallies. An absolute return fund may not achieve its goals and may underperform during periods of strong positive market performance.

Definitions: **The S&P 500 Index** is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general; **The Barclays U.S. Aggregate Bond Index** represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities; The Barclays U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded; **The BofA Merrill Lynch US 3-Month Treasury Bill Index** is comprised of a single issue purchased at the beginning of the month and held for a full month; **The Barclays 1-3 Year Treasury Index** is an unmanaged index of public obligations of the U.S. Treasury with a remaining maturity of one to three years; **The Barclays Global Aggregate Index** measures the performance of global bonds. It includes government, securitized and corporate sectors. **The BofA Merrill Lynch Global Broad Market Index** tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including 'global' bonds. Qualifying bonds must have at least one year remaining term to maturity and a fixed coupon schedule. Bonds must be rated investment grade based on a composite of Moody's and S&P. The index is re-balanced on the last calendar day of the month. Issues that meet the qualifying criteria are included in the index for the following month. Issues that no longer meet the criteria during the course of the month remain in the index until the next month-end re-balancing at which point they are dropped from the index. Indices are unavailable for direct investment. **The Wilshire Liquid Alternative Index℠** measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Wilshire Liquid Alternative Index (WLIQA) is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge Index℠(WLIQAEH), Wilshire Liquid Alternative Global Macro Index℠ (WLIQAGM), Wilshire Liquid Alternative Relative Value Index℠ (WLIQARV), Wilshire Liquid Alternative Multi-Strategy Index℠(WLIQAMS), and Wilshire Liquid Alternative Event Driven Index℠ (WLIQAED). **The Wilshire Liquid Alternative Event Driven Index℠** measures the performance of the event driven strategy component of The Wilshire Liquid Alternative Index℠. Event driven strategies predominantly invest in companies involved in corporate transactions such as mergers, restructuring, distressed, buy backs, or other capital structure changes. The Wilshire Liquid Alternative Event Driven Index (WLIQAED) is designed to provide a broad measure of the liquid alternative event driven market. **Standard Deviation** is the degree by which returns vary relative to the average return. The higher the standard deviation, the greater the variability of the investment; **Correlation** is calculated using R-Squared; which is a measure that represents the percentage of a fund's movements that can be explained by movements in a benchmark index. A fund with low R-squared doesn't act much like the index.

The SEC does not endorse, indemnify, approve nor disapprove of any security.

The Merger Fund® and WCM Alternatives: Event-Driven Fund is distributed by Quasar Distributors, LLC.