



Westchester Capital  
FUNDS

**December 31, 2016**

# Annual Report

**THE MERGER FUND**

**WCM ALTERNATIVES:  
EVENT-DRIVEN FUND**

**STANDARDIZED  
PERFORMANCE SUMMARY  
As of December 31, 2016**

**Total Firm AUM: \$3.8 billion**

Strategy Assets:

Merger Arbitrage<sup>1</sup> \$3.1 billion

Multi-Event<sup>2</sup> \$711.9 million

|                                 | Average Annual Total Return (%) |      |      |      |       |      |
|---------------------------------|---------------------------------|------|------|------|-------|------|
|                                 | QTD                             | YTD  | 1 YR | 5 YR | 10 YR | Life |
| <b>Merger Arbitrage</b>         |                                 |      |      |      |       |      |
| The Merger Fund (Investor)      | 1.09                            | 2.61 | 2.61 | 2.07 | 2.44  | 6.18 |
| The Merger Fund (Institutional) | 1.15                            | 2.94 | 2.94 | n/a  | n/a   | 1.82 |

|                                 | Annual Operating Expense Ratio (%) <sup>3</sup> |                                |  |  |                                    |          |
|---------------------------------|---|--------------------------------|--|--|------------------------------------|----------|
|                                 | Gross Expense Ratio                             | Net Expense Ratio <sup>3</sup> | Net Expenses Before Investment Related Expenses <sup>4</sup> |  | Performance Inception <sup>5</sup> | Fund AUM |
| <b>Merger Arbitrage</b>         |   |                                |  |  |                                    |          |
| The Merger Fund (Investor)      | 1.90%   | 1.77%                          | 1.34%  |  | 01/31/1989                         | \$1.5 b  |
| The Merger Fund (Institutional) | 1.57%   | 1.44%                          | 1.01%  |  | 08/01/2013                         | \$1.4 b  |

|                                  | Average Annual Total Return (%) |      |      |      |       |      |
|----------------------------------|---------------------------------|------|------|------|-------|------|
|                                  | QTD                             | YTD  | 1 YR | 5 YR | 10 YR | Life |
| <b>Insurance Dedicated Funds</b> |                                 |      |      |      |       |      |
| The Merger Fund VL               | 0.81                            | 2.44 | 2.44 | 1.85 | 3.27  | 4.69 |

|                                  | Annual Operating Expense Ratio (%) <sup>3</sup> |                                |  |  |                                    |          |
|----------------------------------|---|--------------------------------|--|--|------------------------------------|----------|
|                                  | Gross Expense Ratio                             | Net Expense Ratio <sup>6</sup> | Net Expenses Before Investment Related Expenses <sup>4</sup> |  | Performance Inception <sup>7</sup> | Fund AUM |
| <b>Insurance Dedicated Funds</b> |   |                                |  |  |                                    |          |
| The Merger Fund VL               | 2.60%   | 1.82%                          | 1.40%  |  | 05/26/2004                         | \$31.8 m |

|                    | Average Annual Total Return (%) |      |      |      |       |      |
|--------------------|---------------------------------|------|------|------|-------|------|
|                    | QTD                             | YTD  | 1 YR | 5 YR | 10 YR | Life |
| <b>Multi-Event</b> |                                 |      |      |      |       |      |
| Event-Driven Fund  | 1.38                            | 2.96 | 2.96 | n/a  | n/a   | 1.55 |

|                    | Annual Operating Expense Ratio (%) <sup>3</sup> |                                |  |  |                       |           |
|--------------------|---|--------------------------------|--|--|-----------------------|-----------|
|                    | Gross Expense Ratio                             | Net Expense Ratio <sup>8</sup> | Net Expenses Before Investment Related Expenses <sup>4</sup> |  | Performance Inception | Fund AUM  |
| <b>Multi-Event</b> |   |                                |  |  |                       |           |
| Event-Driven Fund  | 2.27%   | 2.13%                          | 1.74%  |  | 01/02/2014            | \$112.9 m |

QTD and YTD performance is not annualized. Performance data quoted represent 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 Funds 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 Funds' prior investment advisor. Messrs. Behren and Shannon, the Funds' current portfolio managers, have served as co-portfolio managers of the Funds 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](http://www.westchestercapitalfunds.com).

<sup>1</sup>Includes USD 54 million in private funds advised by Westchester Capital Management, LLC's affiliated investment advisor and USD 115 million in a sub-advised fund. <sup>2</sup>Includes USD 599 million in sub-advised funds. <sup>3</sup>Net expense ratios are as of a fund's most recent prospectus and were applicable to investors. Prospectus dates vary among funds. For The Merger Fund®, expense ratios are as of the May 2, 2016 prospectus. The Advisor has contractually agreed to waive a portion of its management fee until April 30, 2017 if its assets exceed certain thresholds, beginning at \$1.5 billion. For The Merger Fund VL, expense ratios are as of the April 22, 2016 prospectus. For the Event-Driven Fund, expense ratios are as of the May 2, 2016 prospectus. <sup>4</sup>Investment related expenses for The Merger Fund, The Merger Fund VL and the WCM Alternatives: Event-Driven Fund include acquired fund fees and expenses of 0.03%, 0.03% and 0.04%, short interest and dividend expenses of 0.40%, 0.39% and 0.35% respectively. <sup>5</sup>The inception date of the Merger Fund® Investor share class is January 31, 1989. <sup>6</sup>The Merger Fund VL: 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 to an amount not to exceed 1.40%. The expense limitation is expected to apply until April 30, 2017, except that it may be terminated by the Board of Trustees at any time. <sup>7</sup>The inception date of The Merger Fund VL is May 26, 2004. <sup>8</sup>Event-Driven Fund: 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 of the institutional class of shares to an amount not to exceed 1.74%. The expense limitation is expected to apply until April 30, 2017, except that it may be terminated by the Board of Trustees at any time.

| MARKET INDICES  | QTD    | YTD    | 1 YR   | 3 YR   | 5 YR   | 10 YR |
|---|--------|--------|--------|--------|--------|-------|
| BofA Merrill Lynch<br>3-Month U.S.<br>Treasury Bill Index | 0.09%  | 0.33%  | 0.33%  | 0.14%  | 0.12%  | 0.80% |
| Barclays Aggregate<br>Bond Index                          | -2.98% | 2.65%  | 2.65%  | 3.03%  | 2.23%  | 4.34% |
| S&P 500 Index   | 3.82%  | 11.96% | 11.96% | 8.87%  | 14.66% | 6.95% |
| The Wilshire<br>Liquid Alternative<br>ED Index            | 0.68%  | 3.46%  | 3.46%  | -0.57% | 1.18%  | 2.36% |
| The US OE<br>MultiAlternative<br>Category                 | -0.11% | 0.77%  | 0.77%  | -0.14% | 1.25%  | 0.45% |
| The US OE Market<br>Neutral Index                         | 1.60%  | 1.82%  | 1.82%  | 0.76%  | 1.09%  | 0.27% |

Fellow Shareholders,

We live in an increasingly unpredictable world. Black swans, or outlier occurrences, shock us at a mounting rate, often with counterintuitive impacts to boot. The rule of thumb that “the market hates uncertainty” seemed suspended, as markets rose in the face of longshot events which clearly should have created uncertainty. Developments such as Brexit, the election of President Trump, Russian cyber-espionage, North Korean ICBM launches, world-wide terrorism and the Cubs winning the World Series obviously create uncertainty, yet equity markets continue to hit new highs. Nobody could have forecast all of these events, let alone predicted that markets would be UP on Brexit and spike ten percent on the Trump election (not to mention that heavily-shorter Tesla stock would be up 50% during the past three months—just saying). The point is, with the effects being as equally unpredictable as the events themselves, prudent investment managers are scratching their heads seeking stable, predictable and uncorrelated investments. Volatility abounded this year, as the S&P 500 Index dug itself a -10% hole before rallying to gain 9.5% on a sharp post-election bounce.

It is unclear where we go from here, but with equity markets at all-time highs (and earnings multiples extended) and interest rates expected to lift in the near future, it is safe to say that the path of least resistance for both bonds and stocks is not much higher in the near term. The good news from our corner of the investing world is that transaction outcomes are as predictable as ever, and our historic lack of correlation has continued. As we have often discussed, unlike bond investors, we view a rising interest rate environment as attractive, and helpful for arbitrage spreads. Additionally, early indications are that we are entering a uniquely pro-business and free market environment that is conducive to transaction activity.

Although the fourth quarter was challenging and volatile, our Funds gained 1.15%, 0.81% and 1.38% respectively for The Merger Fund<sup>®</sup>, The Merger Fund VL and the WCM Alternatives: Event Driven Fund, bringing our 2016 full year performance to 2.94%, 2.44% and 2.96% respectively, with the usual fraction of equity market volatility. These returns were in-line with our excess return targets over similarly volatile risk-free investments.<sup>1</sup> Although the strong quarter coincided with equity market strength, our performance was actually due to multiple deal completions, successful deal selection and a snap-back in some overextended arbitrage spreads. This was accomplished against a backdrop of an unprecedented number of broken deals, which reinforces the importance of a proven, repeatable investment process should storm clouds gather quickly.

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<sup>1</sup> As of 12/31/2016 the three-year trailing standard deviation for The Merger Fund<sup>®</sup> was 2.96% and for The Merger Fund VL was 2.87% versus 10.74% for the S&P 500 Index. The Standard Deviation for The WCM Event Driven Fund since it's 1/02/2014 inception was 4.05%.

Despite the lack of economic clarity, 2016 continued the three year bull market for merger and acquisition activity. Deal flow remained strong yet deal selection was paramount– traditionally a strength of ours. Some interesting stats, for merger transactions with an equity value of >\$400mm:<sup>2</sup>

- Announced deal value in 2016 was \$867 billion (vs. 2015's record level of \$1.326 trillion), the fifth highest annual level since 1998.
- Average deal size in 2016 was \$5.7 billion, less than the record \$8.8 billion in 2015 but greater than the \$4.3 billion historical average.
- Average annualized deal spreads narrowed during the year from 6.1% in 1Q16 to 4.6% in 4Q16.

Interest rates began to rise in the fourth quarter, although the Fed did not officially raise the federal funds rate until December. As noted above, our December commentary, "Which Boats will Rise with the Interest Rate Tide?"<sup>3</sup> observes that rising rate environments have traditionally been positive for merger arbitrage ("M&A") strategies. In fact, our Funds significantly outperformed the Barclays Aggregate Bond Index which fell almost 3 percent in the last quarter of the year. Additionally, we have outperformed the Barclays Index over the last five quarters.<sup>4</sup>

## Forecast for 2017

We expect clear weather for deal activity in 2017 driven by less uncertainty and more confidence than 2016. Executives remain under pressure to drive growth externally if organic growth is lacking. As companies adapt to globalization and technological innovation, many look for a merger, acquisition or other corporate reorganization to stay competitive. Additionally, companies have begun to lock in historically low deal-funding costs before interest rates rise.

Since our December commentary on rates, President Trump has vowed to follow through on his free market campaign pledges. He has pledged to reduce regulatory burdens on business, invest in infrastructure and reform the corporate tax code. Of note, he has also discussed a potential "tax holiday" to encourage repatriation of overseas cash, a move which industry leaders believe would fuel M&A activity. We agree with forecasters such as David Folkerts-Landau, chief economist at Deutsche Bank who believes "[the Trump administration's] policy mix has the potential of reigniting

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<sup>2</sup> Source: UBS US M&A Review: 4Q16

<sup>3</sup> Available upon request by email or hard copy

<sup>4</sup> Since 9/30/2015 – 12/31/2016 The Merger Fund<sup>®</sup> returned 3.11% versus 1.65% for the Barclays Aggregate Bond Index.

productivity growth and raising the US growth potential.”<sup>5</sup> We also expect this growth will be accompanied by a normalized (read: higher) interest rate environment, with the Federal Reserve continuing its incremental rate hike policy. As a result, we would expect deal activity to ramp and arbitrage spreads to widen in 2017.

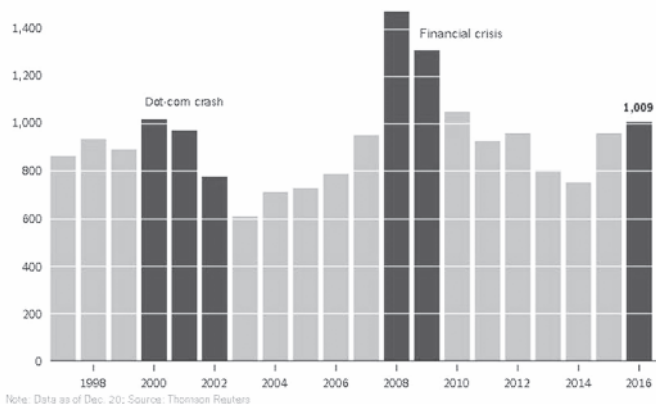
## STRATEGY UPDATES

### Merger Activity

Dealmakers appeared to be cautious during the first three quarters of the year. However, October was the most active month on record for announced deals in the U.S., according to Dealogic, and the fifth busiest month ever for global activity. As a result, full year M&A activity was strong, albeit not at the levels of the past two years.

There were multiple large-scale transactions in 2016, from AT&T’s \$85 billion blockbuster bid for Time Warner to German drug maker Bayer’s \$56 billion offer for Monsanto, the U.S. genetically modified crop giant. However, deal terminations were plentiful as well. In fact, for definitive strategic deals, the termination rate in 2016 was 5.4% (vs. 3.3% historically), a level that has not been seen since 2008. The chart on the following page, which includes deals not subject to a definitive merger agreement, is interesting:

*1,009 takeovers worth \$797.2 billion were pulled this year.*



<sup>5</sup> CNBC, January 9, 2017

The broken deals in this chart represent almost **one quarter** of the \$3.55 trillion in transactions announced over the past calendar year.

Deal failures were caused, among other factors, by valuation disagreements, competing bids, and issues revealed during due diligence. Notable terminations in our universe included Allergan-Pfizer, KLA-Tencor-Lam Research, Meredith-Media General, Office Depot-Staples, Hawaiian Electric-NextEra Energy, and Baker Hughes-Halliburton. Given our focus on risk-adjusted returns, we were able to avoid most of these landmines, but caught some shrapnel in the Allergan-Pfizer (discussed in our Q1 letter) and the KLA-Tencor-Lam Research (discussed in our Q3 letter) transactions.

## **Portfolio Performance Summary**

As mentioned above, The Merger Fund® returned 1.15% and its insurance dedicated counterpart, The Merger Fund VL posted a gain of 0.81%, bringing their year-to-date gains to 2.94% and 2.44% respectively. We held 80 investments throughout the quarter and had one terminated transaction. Reflecting a 3:1 ratio of winners to losers, 59 positions posted gains versus 21 with negative marks-to-market. We invested in 20 new situations during the quarter, and as of the end of December we held 66 positions and ended the quarter approximately 94% invested.

The three top winners for the quarter were Ingram Micro, Inc., Yahoo! Inc. and St. Jude Medical, Inc., contributing approximately 20 to 40 basis points each in performance. China-based HNA Group's \$6 billion acquisition of electronics distributor Ingram Micro closed in early December. We have attached a two-page summary of this transaction as an illustrative case study of a complicated acquisition.

### *Additional contributors:*

- While it's unclear whether Verizon will follow through on a \$4.8 billion deal to buy Yahoo's core internet business, President Donald Trump's plans to revamp the corporate tax code could benefit Yahoo significantly regardless of the Verizon transaction.
- Abbott Laboratories received U.S. antitrust approval to complete its proposed acquisition of St. Jude Medical in early December. The deal closed on January 4, 2017.

Of the 21 situations that posted negative marks the three largest were:

- Syngenta/ChemChina: This transaction resulted in negative marks-to-market due to a number of regulatory-related risk elements; however we are optimistic that it will eventually be cleared in the U.S., E.U. and China. Additionally, we remain alert to the protective

posture of China's foreign exchange authority, the State Administration of Foreign Exchange ("SAFE"), regarding Yuan outflows to pay for corporate transactions. SAFE approval is required for this deal.

- Bass Pro Shops is acquiring Cabela's Inc. for about \$4.5 billion in cash, uniting two of the biggest sellers of outdoor-sports gear and rivals. As part of the deal, Capital One Financial Corp. is acquiring Cabela's credit card business. On the last day of the calendar year the parties received a second request from U.S. antitrust regulators. Simultaneously and perhaps more disconcerting, Capital One revealed that the Office of the Comptroller of Currency ("OCC") was reviewing its Anti-Money Laundering ("AML") compliance and was unlikely to grant it approval to buy Cabela's captive credit card bank prior to the October 2017 termination date. Despite the clear strategic rationale for the transaction, we have become cautious due to the OCC issue as well as weakening fundamentals in the firearm sales business, which may become more apparent as the deal is delayed by the financing business approval.
- Macro Hedge – equities rallied, so we lost approximately 8 basis points on our market hedges.

Our Event Driven Fund had a similar performance profile to The Merger Fund® during this quarter due to an interim large allocation to merger arbitrage. Two of the top three winners and all of the top three detractors were in similar transactions. The largest non-M&A contributor, and the second largest driver of performance, was a position in the secured debt of a late-stage reorganization candidate called Energy Future Holdings ("EFH"). EFH, a Texas-based electric utility company, is the former TXU Energy, which itself was formerly known as Texas Utilities prior to its \$45 billion leveraged buyout by Kohlberg Kravis Roberts, Texas Pacific Group, and Goldman Sachs. The company filed for Chapter 11 bankruptcy protection in mid-2014 and began the emergence from bankruptcy process in mid-2016, via an agreement where NextEra Energy will acquire 100 percent of the equity of EFH and certain of its subsidiaries.

### **When the price just doesn't add up: Appraisal Actions**

After not participating for many years, we have commenced two appraisal actions in Delaware Chancery Court on behalf of our Funds. The concept behind exercising appraisal rights is to allow shareholders judicial recourse when they believe they are receiving less than fair value for their shares pursuant to a merger transaction. The majority of U.S. public companies



are incorporated in Delaware, and these claims would be governed by the Delaware General Corporation Law. In circumstances where plaintiff shareholders can persuade the court that fair value was not paid for the target company's shares, or where price paid was not determined on an arm's length basis, dissenting shareholders can often be awarded significantly more by the Court than the consideration offered in the transaction. The plaintiffs need not prove any claimed wrongdoing, but merely that less than "fair value" was to be paid for the shares.

Based on our internal models and discounted cash flow methodology, we have concluded that Newell Brands Inc. significantly underpaid for Jarden Corp. and shareholders of Columbia Pipeline Group received less than fair value from TransCanada Corp. There are many factors and methodologies that may affect the analysis, such as growth assumptions, cost of capital, and the history of the negotiation and sale process.

Here, briefly, are some of the allegations contained in our complaints, which form the basis for our claims:

### **Jarden**

- Jarden ran a single bidder process and did not run a market check to see whether other strategic or financial buyers would pay a higher price than Newell.
- Martin Franklin, the Company's Executive Chairman, was the lead negotiator for Jarden. He, along with the Company's Vice Chairman and President and the Company's CEO, received substantial golden parachute payments estimated at hundreds of millions dollars. This included the accelerated vesting of equity awards that may never have vested, an option to acquire the Company's Aspen office, an option to purchase Jarden's aircraft, and a post-closing consulting agreement.
- When the Merger Agreement was signed, Jarden had not yet realized expected synergies from some of its prior acquisitions, which appear not to have been incorporated into the deal price.
- Based on the above, we believe that the \$59.21 per share value of cash and Newell stock offered significantly less than fair value consideration.

### **Columbia Pipeline**

- Columbia Pipeline Group was spun off from NiSource Inc. in a structure that incentivized management and insiders to sell the company and trigger lucrative change-of-control compensation awards.

- We believe that within two days of being spun-off, Columbia was marketed to be sold. Reflecting the board's sense of company value, they rejected a \$32.50 to \$35.50 per share takeover bid in August 2015, asserting that a more appropriate price would be in the upper \$30s.
- The energy market plummeted thereafter, and Columbia's management subsequently began to negotiate solely with TransCanada, ultimately agreeing to sell the company at what we believe was a "fire sale" price close to the trough of the energy market decline (March 2016).
- Pursuant to this agreed transaction, Columbia board members received approximately \$72 million, with the CEO and CFO alone receiving over \$63 million.
- Significantly, energy prices spiked during the pendency of the transaction, causing the agreed deal value on the closing date to be significantly below fair value.
- Based on the above, we believe that the Columbia Pipeline merger price of \$25.50 significantly undervalued the company.

We intend to pursue these actions to an appropriate conclusion on behalf of our investors, which we think will deliver an attractive outcome. We view these positions as we would any other investment, carefully balancing risk and liquidity versus the potential reward. Both position sizes are moderate, and are part of our diversified portfolio of merger investments.

## **OUR COMPANY**

WCM manages a total of five SEC-registered mutual funds. Our other vehicles span a spectrum from lower-return, lower-volatility expectations to higher volatility with potentially higher return expectations:

| Account  | Vehicle                      | Strategy         | Inception |
|--|------------------------------|------------------|-----------|
| The Merger Fund® Investor Share Class (MERFX)                                  | SEC '40-Act Fund             | Merger Arbitrage | 1989      |
| Institutional Share Class (MERIX)  | SEC '40-Act Fund             | Merger Arbitrage | 2013      |
| The Merger Fund VL (MERVX)   | Variable Insurance Trust     | Merger Arbitrage | 2004      |
| Dunham Monthly Distribution Fund (DNMDX)                                       | Sub-advised SEC '40-Act Fund | Event-Driven     | 2008      |
| WCM Alternatives: Event-Driven Fund (WCEIX)                                    | SEC '40-Act Fund             | Event-Driven     | 2014      |
| JNL/Westchester Capital Event Driven Fund                                      | Sub-advised SEC '40-Act Fund | Event-Driven     | 2015      |
| Westchester Merger Arbitrage Strategy of theJNL Multi-Manager Alternative Fund | Sub-advised SEC '40-Act Fund | Merger Arbitrage | 2016      |

As usual, quarterly statistical summaries for any of our vehicles are provided within two weeks of the end of the quarter- typically one month prior to the release of the quarterly letter. They are available electronically on our website, and we would be happy to provide a scheduled email as soon as the data becomes available. For convenience, investors can arrange for e-alerts of important Fund communications. Through our website at [www.westchestercapitalfunds.com](http://www.westchestercapitalfunds.com), you can check direct account balances, make purchases and sales, and sign up for notification of trade confirmations, statements and shareholder communications via e-mail.

### **CASE STUDY: INGRAM MICRO INC.**

Merger arbitrage investing is often complex. As investors have asked to better understand our process and its application to individual deals, we thought it would be helpful to provide a case study on a successful deal.

The acquisition of Ingram Micro ("Ingram") for US \$6bln in cash (\$38.90/share) by Tianjin Tianhai Investment Company Ltd. ("TTI") which closed in December, contributed almost 40 basis points (gross, not annualized) to our funds' performance for the year. The deal is particularly interesting because of the multiple facets that needed to be investigated, analyzed and forecasted by our team, counsel and consultants. It also

showcases the importance of a thorough investment and risk management process.

The transaction was announced in February of 2016 and was completed 10 months later after many ups and downs.

### The Courtship

Ingram is a distributor of IT hardware, software and logistics services to suppliers and reseller customers. TTI, a majority-owned subsidiary of HNA group (a China-based Fortune Global 500 conglomerate), provides international transportation services, among other operations. HNA is not a State-Owned Entity but many of its executives are well-connected in the Chinese government. The rationale for this strategic transaction was to expand HNA's expertise, capabilities and geographic reach.

It was an immediate love fest— Ingram stated that it “will now be part of a larger organization that has complementary logistics capabilities and a strong presence in China that can further support the growth and profitability objectives of our vendor and customer partners.” The CEO of HNA group chimed in with **“After the transaction, Ingram Micro would become the largest member enterprise of HNA Group in terms of revenue, and facilitate the internationalization process of the group.** With the help of Ingram Micro, HNA Group would have access to business opportunities in emerging markets...Furthermore, the addition of Ingram Micro would help...HNA Group transform from a logistics operator to a supply chain operator, and provide one-stop services while improving efficiencies.”

### But Hold Off on the Nuptials

Sounds great, right? On the surface, this was a great strategic fit for both companies. But a deeper dive revealed an apparent tough road to completion. Here are *some* of the litany of conditions that were required for the transaction:

- SEC proxy review
- Antitrust approvals in U.S. (Hart-Scott Rodino), Canada, Brazil, India, China, Turkey, Mexico, South Africa, Italy, Austria, Poland, and Slovakia
- Chinese SAFE; Committee on Foreign Investment in the U.S. (“CFIUS”)
- Shanghai Stock Exchange Clearance; Tianjin Tianhai shareholder approval
- Ingram shareholder approval

## Uncertainty Creates Opportunity

The merger agreement was filed the day of the announcement, which disclosed the conditions, representations of the parties, termination provisions and other important details of the transaction, including a commitment by HNA to pay a USD \$400mm termination fee if it were unable to close the deal. This provision signaled a high level of commitment on the part of the Chinese acquirer. However, this transaction traded at an extremely wide arbitrage spread, which reflected the level of risk stemming from the plethora of approvals, the 35% premium paid and the "X factor" of a Chinese buyer.

## Our Analysis & Conclusions

We immediately went to work tracking the various approval processes, which is typical; however, overlaid on this assessment were Chinese currency and antitrust reviews as well as an assessment by CFIUS, which investigates any transaction or investment in a U.S. business or asset by a foreign person that may raise national security concerns or involve critical infrastructure. Antitrust review appeared not to be a problem since the parties did not compete with each other. The majority of our resources were spent on the most complicated and opaque approvals, which were the CFIUS and SAFE reviews.

We ultimately concluded that the transaction was attractive as an investment for the following reasons:

- It had a high likelihood of being successfully completed because the merger agreement was tightly written in favor of the target company
- The buyer had committed to a larger than typical termination fee
- The regulatory conditions seemed surmountable, including the Chinese approvals
- Most importantly, the stock appeared mispriced in the market, trading at a level that implied successful completion was more or less a coin toss

Regarding CFIUS, our take, in consultation with counsel, was that Ingram was merely a reseller of generic electronic equipment, with less than 3% of its sales reaching the U.S. government as end customers, and the transaction posed no threat to national security. After initially claiming that CFIUS approval was not even needed, several months later TTI decided to make the filing. The stock promptly dropped below \$33 in July, creating an arbitrage spread of \$5.90/share, which implied an approximately 40% likelihood of deal success. We viewed this as mispriced and added to our positions.

As the CFIUS process played out behind closed doors, China's currency came under extreme pressure and its government, through SAFE, began a policy of limiting the outflow of money to purchase external assets. Through consultants, we became informed enough to forecast the likelihood of SAFE approval and concluded that currency market fears were overblown as well. We concluded that the SAFE crackdown was more targeted at speculative flows and financially-driven transactions designed to spirit yuan out of the country, rather than strategic deals by Chinese buyers.

We ultimately concluded that the stock was significantly mispriced because:

1. We were comfortable that CFIUS approval was highly likely
2. SAFE concerns were a red herring because the deal was highly strategic; the buyer was a known, favored corporate citizen in China, and the deal was being funded by U.S. dollars, not yuan, borrowed from banks outside of China
3. The \$400mm break fee showed that the buyer was willing to put significant skin in the game. Additionally, Ingram's business remained strong throughout the year, consistently increasing its standalone value (giving us less downside) in the event of deal termination

Consequently, our position size peaked in excess of 4% in late November, exposing the Funds to approximately 0.6% of value-at-risk. The companies continued to knock out the required approvals as they awaited CFIUS, and by the time they received CFIUS approval on November 1st, all approvals except SAFE had been received.

The spread remained wide and we held onto the position, optimistic that the final approval was in sight. The parties, after agreeing to extend the termination (also known as "walkaway date") from mid-August to mid-November, agreed again to extend the date to mid-December. This was another positive data point for the good guys, so we stuck with the position. The parties received SAFE approval on December 2nd, the deal closed on December 5th, capping one of our most interesting deals to date. We would be happy to discuss this deal and our investment process in greater detail with any investor who may be interested.



Roy Behren



Mike Shannon

## IMPORTANT DISCLOSURES

*Before investing in The Merger Fund® and/or WCM Alternatives: Event-Driven Fund, carefully consider the investment objectives, risks, charges and expenses. For a prospectus or summary prospectus containing this and other information, please call (800) 343-8959. Please read the prospectus carefully before investing. The Merger Fund VL is available through variable products offered by third-party insurance companies. For a prospectus containing information for any variable annuity or variable life product that invests in The Merger Fund VL, contact your financial advisor or the offering insurance company for a contract prospectus and prospectus for the underlying funds. To obtain a prospectus for the Dunham Monthly Distribution Fund, please visit [www.dunham.com](http://www.dunham.com). Please read it carefully before investing. Shares of JNL/Westchester Capital Event Driven Fund are offered to separate accounts of participating life insurance companies for the purpose of funding variable annuity contracts and variable life insurance policies. Shares of the fund are not offered directly to the public. For a prospectus containing information for any variable annuity or variable life product that invests in the Fund, contact your financial advisor or the offering insurance company for a contract prospectus and prospectus for the underlying funds. Please read it carefully before investing. Variable annuities are long-term, tax-deferred investments designed for retirement, involve investment risks and may lose value. Earnings are taxable as ordinary income when distributed and may be subject to a 10% federal tax penalty if withdrawn before age 59½. Optional benefit costs are added to the ongoing fees and expenses of the variable annuity.*

*Variable annuities (VA650, VA660) are issued by Jackson National Life Insurance Company® (Home Office: Lansing, Michigan) and in New York (VA650NY, VA660NY) by Jackson National Life Insurance Company of New York® (Home Office: Purchase, New York). Variable annuities are distributed by Jackson National Life Distributors LLC, member FINRA. May not be available in all states and state variations may apply. These products have limitations and restrictions, including withdrawal charges, recapture charges and excess interest adjustments (interest rate adjustments in New York) where applicable. Jackson® issues other annuities with similar features, benefits, limitations and charges. Contact Jackson for more information. Jackson is the marketing name for Jackson National Life Insurance Company and Jackson National Life Insurance Company of New York.*

Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security. The Ten Largest Positions as a Percent of Net Assets for The Merger Fund® as of December 31, 2016 were: Yahoo! Inc. (4.87%), Jarden Corporation (4.36%), St. Jude Medical, Inc. (3.96%), Harman International Industries, Inc. (3.54%), American Capital Ltd. (3.25%), Syngenta AG (3.24%), NXP Semiconductors NV (3.10%), Sky PLC (3.00%), Endurance Specialty Holdings Limited (2.85%), Linear Technology Corporation (2.83%). The Ten Largest Positions as a Percent of Net Assets for The Merger Fund VL as of December 31, 2016 were: Yahoo! Inc. (4.17%), Harman International Industries, Inc. (3.47%), American Capital Ltd. (3.18%), Jarden Corporation (3.17%), Syngenta AG (3.05%), NXP Semiconductors NV (3.04%), St. Jude Medical, Inc. (3.03%), Sky PLC (2.96%), The Valspar Corporation (2.77%), Linear Technology Corporation (2.75%). The Ten Largest Positions as a Percent of Net Assets for WCM Alternatives: Event-Driven Fund as of December 31, 2016 were: Yahoo! Inc. (4.50%), Hewlett Packard Enterprise Company (3.94%), American Capital Ltd. (3.78%), Harman International Industries, Inc. (3.70%), Sky PLC (3.56%), Syngenta AG (3.54%), Jarden Corporation (3.43%), Reynolds American Inc. (3.37%), St. Jude Medical, Inc. (3.37%), NXP Semiconductors NV (3.33%).

**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 February 14, 2017 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.

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating™ for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating™ metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. As of December 31, 2016, The Merger Fund® was rated against the following numbers of U.S.-domiciled Market Neutral funds over the following time periods: 118 funds in the last three years, 70 funds in the last five years, and 27 funds in the last ten years. With respect to these Market Neutral funds, The Merger Fund® - Investor received a Morningstar Rating of 3 stars, 3 stars and 4 stars for the three-, five- and ten year periods, respectively; The Merger Fund® - Institutional received a Morningstar Rating of 3 stars, 4 stars and 4 stars for the three-, five- and ten-year periods, respectively. 5 and 10 year ratings are Extended Performance Ratings computed by



Morningstar based on the MERFX share class. © 2016 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely.

Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. 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 Aggregate Bond Index** is an intermediate term index comprised of investment grade bonds; **The Morningstar Category: US Fund Market Neutral** is comprised of a universe of funds with similar investment objectives; **The Morningstar Category: The US Fund MultiAlternative** encompasses funds that have a majority of their assets exposed to alternative strategies and include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes. **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. Indices are unavailable for direct investment. **The Wilshire Liquid Alternative Event Driven Index<sup>SM</sup>** measures the performance of the event driven strategy component of The Wilshire Liquid Alternative Index<sup>SM</sup>. 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; **A basis point** (often denoted as bps) is a unit equal to 1/100 of a percentage point and can be summarized as follows: 1% change = 100 basis points and 0.01% = 1 basis point; **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 returns shown are based on net asset values calculated for shareholder transactions and may differ from the returns shown in the financial highlights of the annual report, which reflects adjustments made to the net asset values in accordance with accounting principles generally accepted in the United States of America.

Expense ratios are as of a Fund's most recent prospectus and may differ from the more recent expense ratios reported in the financial highlights of the most recent annual or semi-annual report.

*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. The Merger VL is available through variable products offered by third-party insurance companies and is not affiliated with Quasar Distributors, LLC. The Dunham Monthly Distribution Fund, which is sub-advised by Westchester Capital Management, LLC, is distributed by Dunham and Associates Investment Counsel, which have no affiliation with Quasar Distributors, LLC.

**DEAL COMPOSITION**  
**The Merger Fund (Unaudited)**

| <b>Type of Buyer</b> |        |
|----------------------|--------|
| Strategic            | 100.0% |
| Financial            | 0.0%   |

| <b>By Deal Type</b> |       |
|---------------------|-------|
| Friendly            | 97.2% |
| Hostile             | 2.8%  |

| <b>Deal Terms*</b>                          |       |
|---|-------|
| Cash  | 41.1% |
| Cash & Stock                                | 29.7% |
| Stock and Stub <sup>(1)</sup>               | 20.6% |
| Stock with Fixed Exchange Ratio             | 5.6%  |
| Undetermined <sup>(2)</sup>                 | 2.7%  |
| Stock with Flexible Exchange Ratio (Collar) | 0.3%  |

\* Data expressed as a percentage of long common stock, corporate bonds and swap contract positions as of December 31, 2016.

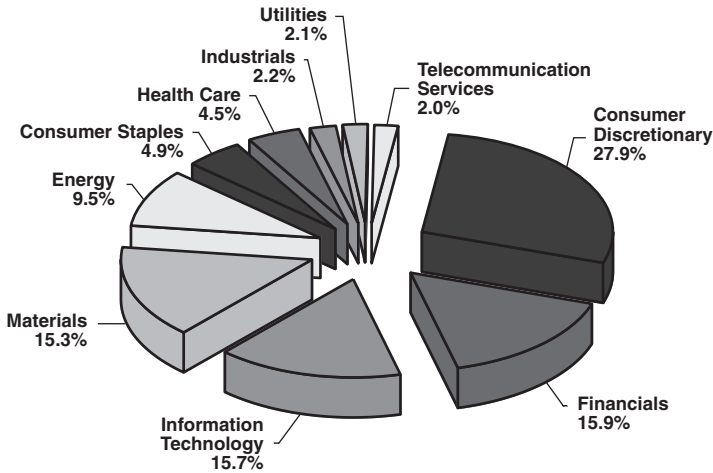
<sup>1</sup> "Stub" includes assets other than cash and stock (e.g., escrow notes).

<sup>2</sup> The compensation is undetermined because the compensation to be received (e.g., stock, cash, escrow notes, other) will be determined at a later date, potentially at the option of the Fund's investment adviser.

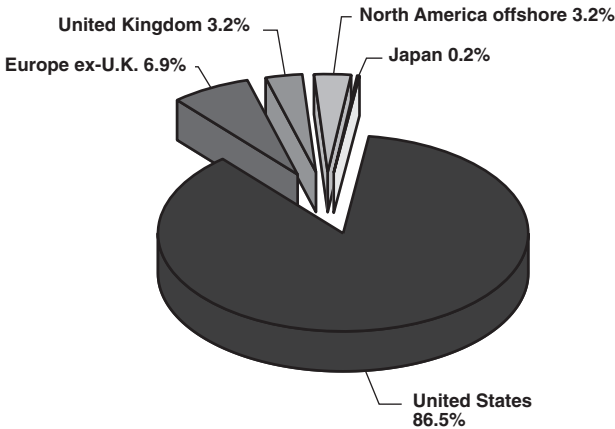
# PORTFOLIO COMPOSITION\*

## The Merger Fund (Unaudited)

### By Sector



### By Region

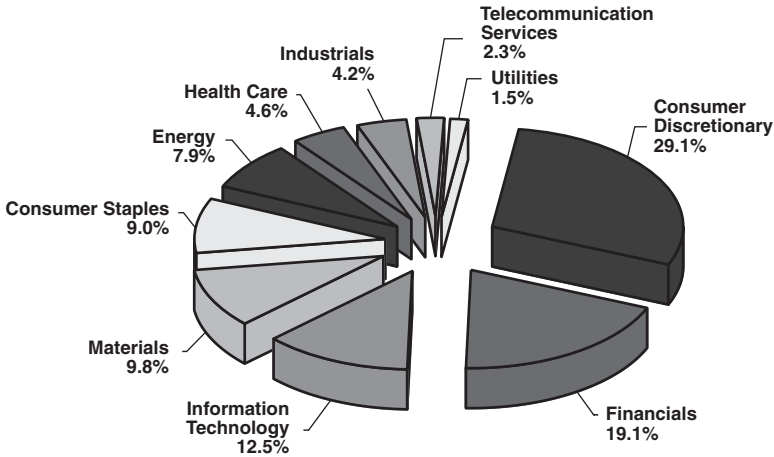


\* Data expressed as a percentage of long common stock, corporate bonds and swap contract positions as of December 31, 2016. Data expressed excludes short-term investments, short investments, written options, forward currency exchange contracts and short total return swap contracts. Please refer to the Schedule of Investments, Schedule of Options Written, Schedule of Forward Currency Exchange Contracts and Schedule of Swap Contracts for more details on the Fund's individual holdings.

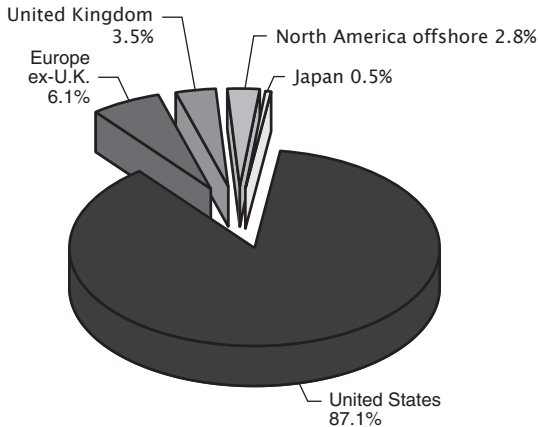
## PORTFOLIO COMPOSITION\*

### WCM Alternatives: Event-Driven Fund (Unaudited)

#### By Sector



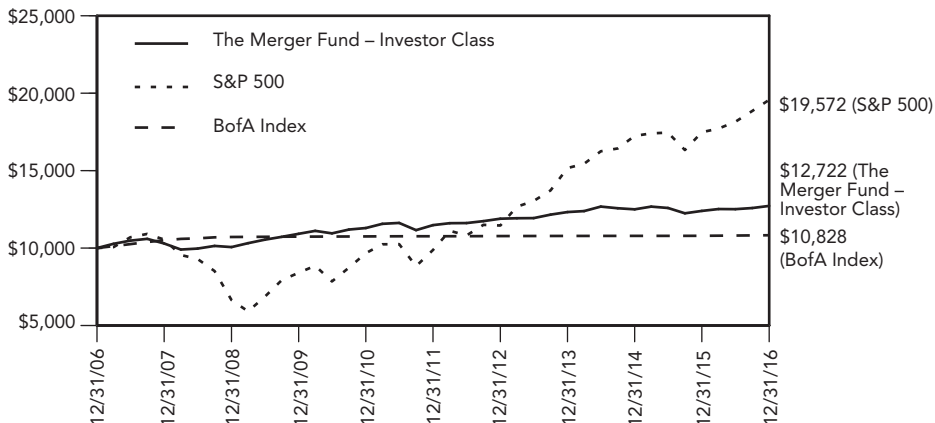
#### By Region



\* Data expressed as a percentage of long common stock, corporate bonds and swap contract positions as of December 31, 2016. Data expressed excludes short-term investments, short investments, written options, forward currency exchange contracts and short total return swap contracts. Please refer to the Schedule of Investments, Schedule of Options Written, Schedule of Forward Currency Exchange Contracts and Schedule of Swap Contracts for more details on the Fund's individual holdings.

The Global Industry Classification Standard (GICS®) was developed by and/or is the exclusive property of MSCI, Inc. and Standard & Poor's Financial Services LLC ("S&P"). GICS is a service mark of MSCI and S&P and has been licensed for use by U.S. Bancorp Fund Services, LLC.

**COMPARISON OF CHANGE IN VALUE OF \$10,000 INVESTMENT  
IN THE MERGER FUND, S&P 500 AND BofA MERRILL LYNCH  
3-MONTH U.S. TREASURY BILL INDEX\***



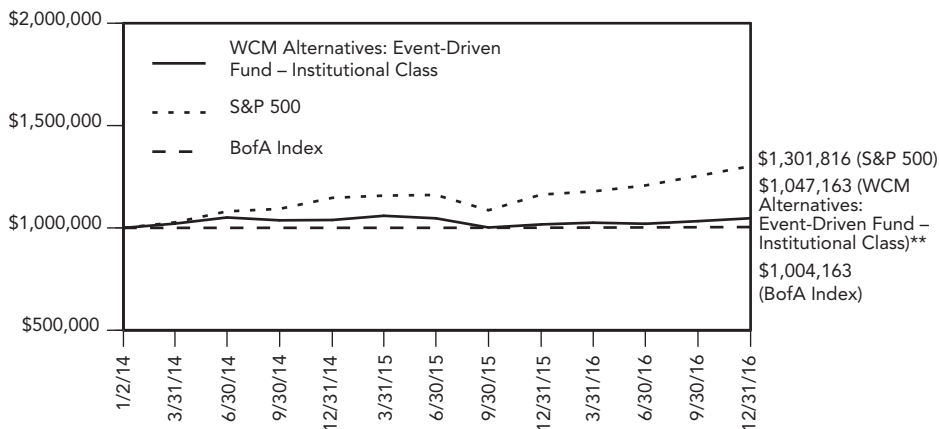
**THE MERGER FUND  
AVERAGE ANNUAL TOTAL RETURNS  
as of December 31, 2016**

|                           | <u>1 Yr.</u> | <u>3 Yr.</u> | <u>5 Yr.</u>           | <u>10 Yr.</u> |
|---------------------------|--------------|--------------|------------------------|---------------|
| Investor Class .....      | 2.61%        | 1.06%        | 2.07%                  | 2.44%         |
| BofA Index .....          | 0.33%        | 0.14%        | 0.12%                  | 0.80%         |
| S&P 500 .....             | 11.96%       | 8.87%        | 14.66%                 | 6.95%         |
|                           |              |              | <u>Since Inception</u> |               |
|                           | <u>1 Yr.</u> | <u>3 Yr.</u> | <u>(8/1/2013)</u>      |               |
| Institutional Class ..... | 2.94%        | 1.34%        | 1.82%                  |               |
| BofA Index .....          | 0.33%        | 0.14%        | 0.13%                  |               |
| S&P 500 .....             | 11.96%       | 8.87%        | 10.59%                 |               |

This chart assumes an initial gross investment of \$10,000 made on December 31, 2006. Returns shown include the reinvestment of all dividends. Past performance is not predictive of future performance. The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or upon redemption of fund shares. Investment return and principal value will fluctuate, so that your shares, when redeemed, may be worth more or less than the original cost. **The Standard & Poor's 500 Index ("S&P 500")** is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. **The BofA Merrill Lynch U.S. 3-Month Treasury Bill Index ("BofA Index")** is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

\* The Funds compare their performance in this annual report to the BofA Index. The Funds' Advisor believes the BofA Index is a more appropriate index against which to compare the Funds' performance than the Funds' former index, the S&P 500, in light of the Funds' investment strategies, including those that may be characterized as market neutral strategies.

**COMPARISON OF CHANGE IN VALUE OF \$1,000,000 INVESTMENT  
IN THE WCM ALTERNATIVES: EVENT-DRIVEN FUND, S&P 500  
AND BofA MERRILL LYNCH 3-MONTH U.S. TREASURY BILL INDEX\***



**WCM ALTERNATIVES: EVENT-DRIVEN FUND  
AVERAGE ANNUAL TOTAL RETURNS  
as of December 31, 2016**

|                           | 1 Yr.   | Since Inception<br>(1/2/2014) |
|---------------------------|---------|-------------------------------|
| Institutional Class ..... | 2.96%** | 1.55%                         |
| BofA Index .....          | 0.33%   | 0.14%                         |
| S&P 500 .....             | 11.96%  | 9.21%                         |

This chart assumes an initial gross investment of \$1,000,000 made on January 2, 2014. Returns shown include the reinvestment of all dividends. Past performance is not predictive of future performance. The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or upon redemptions of fund shares. Investment return and principal value will fluctuate, so that your shares, when redeemed, may be worth more or less than the original cost. **The Standard & Poor's 500 Index ("S&P 500")** is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. **The BofA Merrill Lynch U.S. 3-Month Treasury Bill Index ("BofA Index")** is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

\* The Fund compares its performance in this annual report to the BofA Index. The Fund's Advisor believes the BofA Index is a more appropriate index against which to compare the Fund's performance than the Fund's former index, the S&P 500, in light of the Fund's investment strategies, including those that may be characterized as market neutral strategies.

\*\* The return shown is based on net asset values calculated for shareholder transactions and may differ from the return shown in the financial highlights, which reflects adjustments made to the net asset values in accordance with accounting principles generally accepted in the United States of America.

## The Merger Fund and WCM Alternatives: Event-Driven Fund

### EXPENSE EXAMPLE

December 31, 2016 (Unaudited)

As a shareholder of a Fund, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees, distribution and/or service fees, and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in a Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the period and held for the period 7/1/16 — 12/31/16.

#### Actual Expenses

The first line of the table for each share class provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period. The example below includes, among other fees, management fees, fund accounting, custody and transfer agent fees. However, the example below does not include portfolio trading commissions and related expenses, or extraordinary expenses.

#### Hypothetical Example for Comparison Purposes

The second line of the table for each share class provides information about hypothetical account values and hypothetical expenses based on each Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in each Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. Please note that the expenses shown in the table are meant to highlight your ongoing costs only. Therefore, the second line of the table is useful in comparing costs only, and will not help you determine the relative total costs of owning different funds.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**EXPENSE EXAMPLE (continued)**  
**December 31, 2016 (Unaudited)**

|  | Beginning<br>Account<br>Value<br>7/1/16 | Ending<br>Account<br>Value<br>12/31/16 | Annualized<br>Expense<br>Ratio | Expenses<br>Paid<br>During<br>Period<br>7/1/16 —<br>12/31/16* |
|--|---|--|--------------------------------|---|
| <b>The Merger Fund</b>                     |   |  |                                |   |
| Investor Class                             |   |  |                                |   |
| Actual <sup>+(1)</sup>                     | \$1,000.00                              | \$1,016.80                             | 2.04%                          | \$10.34   |
| Hypothetical <sup>+(2)</sup>               | \$1,000.00                              | \$1,014.88                             | 2.04%                          | \$10.33   |
| Institutional Class                        |   |  |                                |   |
| Actual <sup>++(3)</sup>                    | \$1,000.00                              | \$1,018.70                             | 1.72%                          | \$ 8.73   |
| Hypothetical <sup>++(2)</sup>              | \$1,000.00                              | \$1,016.49                             | 1.72%                          | \$ 8.72   |
| <b>WCM Alternatives: Event-Driven Fund</b> |   |  |                                |   |
| Institutional Class                        |   |  |                                |   |
| Actual <sup>+++ (4)</sup>                  | \$1,000.00                              | \$1,025.40                             | 2.49%                          | \$12.68   |
| Hypothetical <sup>+++ (2)</sup>            | \$1,000.00                              | \$1,012.62                             | 2.49%                          | \$12.60   |

- \* Expenses are equal to the Fund's annualized net expense ratio multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).
- + Excluding dividends and borrowing expense on securities sold short, your actual cost of investment in and your hypothetical cost of investment in The Merger Fund's Investor Class would have been \$7.15 and \$7.15, respectively.
- ++ Excluding dividends and borrowing expense on securities sold short, your actual cost of investment in and your hypothetical cost of investment in The Merger Fund's Institutional Class would have been \$5.53 and \$5.53, respectively.
- +++ Excluding dividends and borrowing expense on securities sold short, your actual cost of investment in and your hypothetical cost of investment in WCM Alternatives: Event-Driven Fund's Institutional Class would have been \$8.86 and \$8.82, respectively.
- (1) Ending account values and expenses paid during the period based on a 1.68% return. This actual return is net of expenses.
- (2) Ending account values and expenses paid during period based on a hypothetical 5.00% annual return before expenses.
- (3) Ending account values and expenses paid during the period based on a 1.87% return. This actual return is net of expenses.
- (4) Ending account values and expenses paid during the period based on a 2.54% return. This actual return is net of expenses.



**The Merger Fund**  
**SCHEDULE OF INVESTMENTS**  
**December 31, 2016**

| <u>Shares</u>  | <u>Value</u>       |
|--|--------------------|
| LONG INVESTMENTS — 111.60%   |                    |
| COMMON STOCKS — 81.54%   |                    |
| AEROSPACE & DEFENSE — 1.26%  |                    |
| 611,882 B/E Aerospace, Inc. (e) . . . . .                                      | \$ 36,829,178      |
| ALTERNATIVE CARRIERS — 1.40%   |                    |
| 725,321 Level 3 Communications, Inc. (a) . . . . .                             | 40,879,091         |
| APPLICATION SOFTWARE — 1.98%   |                    |
| 1,563,644 Mentor Graphics Corporation (e) . . . . .                            | 57,682,827         |
| ASSET MANAGEMENT & CUSTODY BANKS — 0.85%                                       |                    |
| 1,659,877 NorthStar Asset Management Group, Inc. . . . .                       | 24,765,365         |
| AUTO PARTS & EQUIPMENT — 0.09%   |                    |
| 43,260 Adient plc (a)(b) . . . . .   | 2,535,036          |
| AUTOMOBILE MANUFACTURERS — 0.05%   |                    |
| 38,800 General Motors Company . . . . .  | 1,351,792          |
| BROADCASTING — 1.50%   |                    |
| 458,200 CBS Corporation Class B . . . . .                                      | 29,150,684         |
| 773,207 Media General, Inc. (a)(e) . . . . .                                   | 14,559,488         |
|  | <u>43,710,172</u>  |
| BUILDING PRODUCTS — 0.61%  |                    |
| 432,600 Johnson Controls International plc (b) . . . . .                       | 17,818,794         |
| CABLE & SATELLITE — 0.77%  |                    |
| 655,765 Liberty Media Corporation-Liberty<br>SiriusXM Class A (a)(e) . . . . . | 22,637,008         |
| CASINOS & GAMING — 0.18%   |                    |
| 219,187 Isle of Capri Casinos, Inc. (a)(e) . . . . .                           | 5,411,727          |
| CONSUMER ELECTRONICS — 3.54%   |                    |
| 928,857 Harman International Industries, Inc. (e) . . . . .                    | 103,251,744        |
| DIVERSIFIED CHEMICALS — 2.41%  |                    |
| 1,231,231 The Dow Chemical Company . . . . .                                   | 70,451,038         |
| DRUG RETAIL — 0.49%  |                    |
| 1,722,324 Rite Aid Corporation (a) . . . . .                                   | 14,191,950         |
| FERTILIZERS & AGRICULTURAL CHEMICALS — 4.00%                                   |                    |
| 412,600 Monsanto Company (e) . . . . .   | 43,409,646         |
| 927,336 Syngenta AG — ADR (e) . . . . .  | 73,305,911         |
|  | <u>116,715,557</u> |
| FINANCIAL EXCHANGES & DATA — 0.29%   |                    |
| 252,437 Bats Global Markets, Inc. (e) . . . . .                                | 8,459,164          |

The accompanying notes are an integral part of these financial statements.

**The Merger Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Shares</u> |  | <u>Value</u>       |
|---------------|--|--------------------|
|               | HEALTH CARE EQUIPMENT — 3.95%                        |                    |
| 1,439,097     | St. Jude Medical, Inc. (e) . . . . .                 | \$ 115,401,188     |
|               | HEALTH CARE SERVICES — 0.04%                         |                    |
| 17,364        | Envision Healthcare Corporation (a) . . . . .        | 1,098,968          |
|               | HOTELS, RESORTS & CRUISE LINES — 2.22%               |                    |
| 2,382,900     | Hilton Worldwide Holdings, Inc. . . . .              | 64,814,880         |
|               | HOUSEWARES & SPECIALTIES — 4.36%                     |                    |
| 2,025,678     | Jarden Corporation (a)(d)(g)(j) . . . . .            | 127,184,421        |
|               | INTERNET SOFTWARE & SERVICES — 4.87%                 |                    |
| 3,672,930     | Yahoo!, Inc. (a)(e) . . . . .                        | 142,032,203        |
|               | MOVIES & ENTERTAINMENT — 2.72%                       |                    |
| 823,075       | Time Warner, Inc. (e) . . . . .                      | 79,451,430         |
|               | MULTI-LINE INSURANCE — 2.49%                         |                    |
| 1,111,200     | American International Group, Inc. . . . .           | 72,572,472         |
|               | OIL & GAS & CONSUMABLE FUELS — 0.70%                 |                    |
| 568,786       | Energy Transfer Partners LP . . . . .                | 20,368,227         |
|               | OIL & GAS EQUIPMENT & SERVICES — 3.95%               |                    |
| 907,100       | Baker Hughes, Inc. . . . .                           | 58,934,287         |
| 1,572,327     | FMC Technologies, Inc. (a)(e)(f) . . . . .           | 56,366,351         |
|               |  | <u>115,300,638</u> |
|               | OIL & GAS REFINING & MARKETING — 0.19%               |                    |
| 604,197       | Showa Shell Sekiyu K.K. (b) . . . . .                | 5,619,355          |
|               | OIL & GAS STORAGE & TRANSPORTATION — 3.14%           |                    |
| 2,276,354     | Columbia Pipeline Group, Inc. (a)(d)(g)(j) . . . . . | 58,539,425         |
| 1,924,990     | Columbia Pipeline Partners LP (e) . . . . .          | 33,013,579         |
|               |  | <u>91,553,004</u>  |
|               | PACKAGED FOODS & MEATS — 1.29%                       |                    |
| 593,773       | Lamb Weston Holdings, Inc. (e) . . . . .             | 22,474,308         |
| 271,825       | The WhiteWave Foods Company (a) . . . . .            | 15,113,470         |
|               |  | <u>37,587,778</u>  |
|               | PERSONAL PRODUCTS — 0.06%                            |                    |
| 93,059        | Coty, Inc. Class A . . . . .                         | 1,703,910          |
|               | REGIONAL BANKS — 2.20%                               |                    |
| 1,185,900     | CIT Group, Inc. . . . .                              | 50,614,212         |
| 249,371       | PrivateBancorp, Inc. . . . .                         | 13,513,414         |
|               |  | <u>64,127,626</u>  |

The accompanying notes are an integral part of these financial statements.

**The Merger Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Shares</u> |   | <u>Value</u>         |
|---------------|---|----------------------|
|               | REINSURANCE — 2.85%                                   |                      |
| 898,624       | Endurance Specialty Holdings Ltd. (b)(e) .....        | \$ 83,032,858        |
|               | REITs — 0.98%   |                      |
| 1,267,886     | NorthStar Realty Finance Corporation .....            | 19,208,473           |
| 424,863       | Starwood Property Trust, Inc. ....                    | 9,325,743            |
|               |   | <u>28,534,216</u>    |
|               | RESTAURANTS — 1.28%                                   |                      |
| 418,300       | Yum China Holdings, Inc. (a) .....                    | 10,925,996           |
| 418,300       | Yum! Brands, Inc. ....                                | 26,490,939           |
|               |   | <u>37,416,935</u>    |
|               | SEMICONDUCTORS — 6.54%                                |                      |
| 803,480       | Intersil Corporation Class A (e) .....                | 17,917,604           |
| 1,322,866     | Linear Technology Corporation (e) .....               | 82,480,695           |
| 923,657       | NXP Semiconductors NV (a)(b)(e) .....                 | 90,527,622           |
|               |   | <u>190,925,921</u>   |
|               | SPECIAL PURPOSE ACQUISITION COMPANY — 0.14%           |                      |
| 395,952       | KLR Energy Acquisition Corporation Class A (a) .....  | 4,098,103            |
|               | SPECIALTY CHEMICALS — 7.24%                           |                      |
| 657,600       | Ashland Global Holdings, Inc. (e) .....               | 71,869,104           |
| 1,843,059     | Chemtura Corporation (a)(e) .....                     | 61,189,559           |
| 753,632       | The Valspar Corporation (e) .....                     | 78,083,811           |
|               |   | <u>211,142,474</u>   |
|               | SPECIALTY STORES — 2.69%                              |                      |
| 1,339,896     | Cabela's, Inc. (a)(e) .....                           | 78,450,911           |
|               | SYSTEMS SOFTWARE — 1.09%                              |                      |
| 578,680       | Dell Technologies, Inc. Class V (a) .....             | 31,810,040           |
|               | TECHNOLOGY HARDWARE,<br>STORAGE & PERIPHERALS — 2.53% |                      |
| 3,188,600     | Hewlett Packard Enterprise Company (e) .....          | 73,784,204           |
|               | THRIFTS & MORTGAGE FINANCE — 2.01%                    |                      |
| 3,011,064     | EverBank Financial Corporation (e) .....              | 58,565,195           |
|               | TOBACCO — 2.59%                                       |                      |
| 1,350,779     | Reynolds American, Inc. (e) .....                     | 75,697,655           |
|               | TOTAL COMMON STOCKS (Cost \$2,314,979,439) .....      | <u>2,378,965,055</u> |
|               | CLOSED-END FUNDS — 3.26%                              |                      |
| 5,297,159     | American Capital Ltd. (a)(e) .....                    | 94,925,089           |
|               | TOTAL CLOSED-END FUNDS (Cost \$87,626,887) .....      | <u>94,925,089</u>    |

The accompanying notes are an integral part of these financial statements.

**The Merger Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Shares</u>   | <u>Value</u>   |
|---|----------------|
| CONTINGENT VALUE RIGHTS — 0.03%                             |                |
| 1,713,496 Casa Ley, S.A. de C.V. (a)(g) . . . . .           | \$ 599,723     |
| 77,699 Leap Wireless International, Inc. (a)(g) . . . . .   | 244,752        |
| 1,713,496 Property Development Centers LLC (a)(g) . . . . . | 85,675         |
| TOTAL CONTINGENT VALUE RIGHTS (Cost \$0) . . . . .          | <u>930,150</u> |

**Principal Amount**

|  |   |
|--|---|
| CORPORATE BONDS — 4.30% (f)                          |   |
| \$ 3,385,000   | Aeropuertos Dominicanos Siglo XXI, S.A.<br>9.250%, 11/13/2019 (b)(i) . . . . . 3,537,325                  |
| 4,496,000  | Alere, Inc.<br>6.500%, 6/15/2020 . . . . . 4,451,040  |
| 16,141,000   | Change Healthcare Holdings, Inc.<br>11.000%, 12/31/2019 . . . . . 16,669,618                              |
| 10,065,404   | Energy Future Intermediate Holding Company LLC<br>11.000%, 10/1/2021 (h) . . . . . 13,487,641             |
| 30,940,446   | FairPoint Communications, Inc.<br>11.750%, 3/1/2022 (h)(i) . . . . . 42,233,709                           |
| 13,596,000   | LIN Television Corporation<br>8.750%, 8/15/2019 (i) . . . . . 14,207,820                                  |
| 6,991,000  | Northern Tier Energy LLC / Northern<br>Tier Finance Corporation<br>5.875%, 11/15/2022 . . . . . 7,148,298 |
| 4,453,000  | Rite Aid Corporation<br>7.125%, 11/15/2020 . . . . . 4,647,819  |
| 3,812,000  | Team Health, Inc.<br>6.125%, 4/1/2023 (i) . . . . . 4,112,195   |
| 2,285,000  | Western Refining, Inc.<br>7.250%, 12/15/2023 (i) . . . . . 2,604,900                                      |
| 11,876,000   | 6.250%, 4/1/2021 . . . . . 12,351,040   |
| TOTAL CORPORATE BONDS (Cost \$114,196,527) . . . . . | <u>125,451,405</u>  |

**Contracts (100 shares per contract)**

|                                |  |
|--------------------------------|--|
| PURCHASED CALL OPTIONS — 0.00% |  |
| 321                            | Rockwell Collins, Inc.<br>Expiration: January 2017, Exercise Price: \$100.00 . . . . . 18,297  |
| 1,576                          | SPDR S&P 500 ETF Trust<br>Expiration: February 2017, Exercise Price: \$237.00 . . . . . 29,944 |
|                                | <u>48,241</u>  |

The accompanying notes are an integral part of these financial statements.

**The Merger Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Contracts (100 shares per contract)</u>                          | <u>Value</u>          |
|---|-----------------------|
| PURCHASED PUT OPTIONS — 0.12%                                       |                       |
| American International Group, Inc.                                  |                       |
| 2,247 Expiration: February 2017, Exercise Price: \$57.50 . . . . .  | \$ 89,880             |
| 8,865 Expiration: February 2017, Exercise Price: \$62.50 . . . . .  | 1,028,340             |
| Ashland Global Holdings, Inc.                                       |                       |
| 2,722 Expiration: January 2017, Exercise Price: \$95.00 . . . . .   | 47,635                |
| 3,921 Expiration: January 2017, Exercise Price: \$100.00 . . . . .  | 88,222                |
| Baker Hughes, Inc.  |                       |
| 4,553 Expiration: January 2017, Exercise Price: \$60.00 . . . . .   | 163,908               |
| 4,518 Expiration: February 2017, Exercise Price: \$57.50 . . . . .  | 259,785               |
| CBS Corporation Class B   |                       |
| 2,731 Expiration: January 2017, Exercise Price: \$50.00 . . . . .   | 25,944                |
| 461 Expiration: January 2017, Exercise Price: \$52.50 . . . . .     | 2,766                 |
| 4,582 Expiration: January 2017, Exercise Price: \$57.00 . . . . .   | 71,021                |
| CIT Group, Inc.   |                       |
| 1,665 Expiration: January 2017, Exercise Price: \$31.00 . . . . .   | 15,817                |
| 10,195 Expiration: January 2017, Exercise Price: \$39.00 . . . . .  | 193,705               |
| The Dow Chemical Company  |                       |
| 5,084 Expiration: January 2017, Exercise Price: \$50.00 . . . . .   | 61,008                |
| General Motors Company  |                       |
| 388 Expiration: January 2017, Exercise Price: \$29.00 . . . . .     | 1,552                 |
| Hewlett Packard Enterprise Company                                  |                       |
| 2,372 Expiration: January 2017, Exercise Price: \$18.00 . . . . .   | 5,930                 |
| 16,717 Expiration: January 2017, Exercise Price: \$19.00 . . . . .  | 41,792                |
| 12,559 Expiration: January 2017, Exercise Price: \$21.00 . . . . .  | 94,193                |
| Hilton Worldwide Holdings, Inc.                                     |                       |
| 1,604 Expiration: January 2017, Exercise Price: \$19.00 . . . . .   | 8,020                 |
| 603 Expiration: January 2017, Exercise Price: \$20.00 . . . . .     | 1,508                 |
| 21,555 Expiration: February 2017, Exercise Price: \$22.00 . . . . . | 215,550               |
| Johnson Controls International plc                                  |                       |
| 6,143 Expiration: January 2017, Exercise Price: \$40.00 . . . . .   | 30,715                |
| Lamb Weston Holdings, Inc.  |                       |
| 5,908 Expiration: January 2017, Exercise Price: \$30.00 . . . . .   | 88,620                |
| SPDR S&P 500 ETF Trust  |                       |
| 1,583 Expiration: January 2017, Exercise Price: \$227.00 . . . . .  | 695,729               |
| 394 Expiration: February 2017, Exercise Price: \$226.00 . . . . .   | 201,137               |
| Yum! Brands, Inc.   |                       |
| 881 Expiration: January 2017, Exercise Price: \$72.50 . . . . .     | 22,466                |
| 3,302 Expiration: January 2017, Exercise Price: \$80.00 . . . . .   | 66,040                |
|   | <hr/>                 |
|   | 3,521,283             |
| TOTAL PURCHASED OPTIONS (Cost \$4,835,765) . . . . .                | <hr/> 3,569,524 <hr/> |

The accompanying notes are an integral part of these financial statements.

**The Merger Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Principal Amount</u>   | <u>Value</u>         |
|---|----------------------|
| ESCROW NOTES — 0.06%  |                      |
| \$1,243,406 AMR Corporation (a)(d)(g) . . . . .   | \$ 1,678,598         |
| TOTAL ESCROW NOTES (Cost \$679,555) . . . . .   | <u>1,678,598</u>     |
| <br>  |                      |
| <u>Shares</u>   |                      |
| SHORT-TERM INVESTMENTS — 22.29%   |                      |
| 142,935,000 First American Government Obligations Fund,<br>Institutional Share Class, 0.42% (c) . . . . .                             | 142,935,000          |
| 142,935,000 First American Treasury Obligations Fund,<br>Institutional Share Class, 0.40% (c) . . . . .                               | 142,935,000          |
| 142,935,000 Invesco Government & Agency Portfolio,<br>Institutional Share Class, 0.43% (c) . . . . .                                  | 142,935,000          |
| 142,935,000 Morgan Stanley Institutional Liquidity<br>Funds — Government Portfolio,<br>Institutional Share Class, 0.44% (c) . . . . . | 142,935,000          |
| 78,584,270 Invesco Treasury Portfolio,<br>Institutional Share Class, 0.37% (c) . . . . .  | <u>78,584,270</u>    |
| TOTAL SHORT-TERM INVESTMENTS<br>(Cost \$650,324,270) . . . . .  | <u>650,324,270</u>   |
| TOTAL LONG INVESTMENTS<br>(Cost \$3,172,642,443) — 111.60% . . . . .  | <u>3,255,844,091</u> |
| <br>  |                      |
| SHORT INVESTMENTS — (16.11)%  |                      |
| COMMON STOCKS — (14.66)%  |                      |
| AEROSPACE & DEFENSE — (0.41)%   |                      |
| (128,503) Rockwell Collins, Inc. . . . .  | <u>(11,919,938)</u>  |
| AIRLINES — (0.10)%  |                      |
| (65,211) American Airlines Group, Inc. . . . .  | <u>(3,044,702)</u>   |
| BROADCASTING — (0.21)%  |                      |
| (96,486) Nexstar Broadcasting Group, Inc. Class A . . . . .   | <u>(6,107,564)</u>   |
| CABLE & SATELLITE — (0.94)%   |                      |
| (6,174,406) Sirius XM Holdings, Inc. . . . .  | <u>(27,476,107)</u>  |
| CASINOS & GAMING — (0.09)%  |                      |
| (150,791) Eldorado Resorts, Inc. . . . .  | <u>(2,555,907)</u>   |
| CONSTRUCTION MACHINERY &<br>HEAVY TRUCKS — (0.17)%  |                      |
| (181,174) Joy Global, Inc. . . . .  | <u>(5,072,872)</u>   |

The accompanying notes are an integral part of these financial statements.

**The Merger Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Shares</u> | <u>Value</u>  |
|---------------|---|
|               | DIVERSIFIED BANKS — (0.26)%   |
| (91,195)      | Canadian Imperial Bank of Commerce (b) . . . . . \$ (7,441,512)         |
|               | DIVERSIFIED CHEMICALS — (1.42)%   |
| (563,801)     | E. I. Du Pont de Nemours and Company . . . . . (41,382,993)             |
|               | FINANCIAL EXCHANGES & DATA — (0.20)%                                    |
| (80,754)      | CBOE Holdings, Inc. . . . . (5,966,913)                                 |
|               | HEALTH CARE EQUIPMENT — (1.65)%   |
| (1,249,845)   | Abbott Laboratories . . . . . (48,006,546)                              |
|               | HEALTH CARE SERVICES — (0.04)%  |
| (17,364)      | Envision Healthcare Corporation . . . . . (1,098,968)                   |
|               | INTEGRATED TELECOMMUNICATION<br>SERVICES — (0.42)%                      |
| (40,947)      | AT&T, Inc. . . . . (1,741,476)  |
| (439,433)     | CenturyLink, Inc. . . . . (10,449,717)                                  |
|               | (12,191,193)  |
|               | INTERNET SOFTWARE & SERVICES — (3.92)%                                  |
| (1,303,096)   | Alibaba Group Holding Ltd. — ADR . . . . . (114,424,860)                |
|               | OIL & GAS & CONSUMABLE FUELS — (0.70)%                                  |
| (853,148)     | Sunoco Logistics Partners LP . . . . . (20,492,615)                     |
|               | OIL & GAS REFINING & MARKETING — (0.28)%                                |
| (302,009)     | Idemitsu Kosan Company, Ltd. (b) . . . . . (8,023,426)                  |
|               | REITs — (1.45)%   |
| (2,085,101)   | Colony Capital, Inc. Class A . . . . . (42,223,295)                     |
|               | SEMICONDUCTORS — (0.76)%  |
| (307,035)     | Analog Devices, Inc. . . . . (22,296,882)                               |
|               | SOFTWARE — (1.40)%  |
| (519,243)     | VMware, Inc. Class A . . . . . (40,880,001)                             |
|               | TOBACCO — (0.24)%   |
| (62,686)      | British American Tobacco PLC — ADR . . . . . (7,062,832)                |
|               | TOTAL COMMON STOCKS<br>(Proceeds \$395,547,849) . . . . . (427,669,126) |

The accompanying notes are an integral part of these financial statements.

**The Merger Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Shares</u>                                     | <u>Value</u>           |
|---|------------------------|
| CLOSED-END FUNDS — (1.45)%                        |                        |
| (2,558,528) Ares Capital Corporation .....        | \$ (42,190,127)        |
| TOTAL CLOSED-END FUNDS                            |                        |
| (Proceeds \$38,548,531) .....                     | <u>(42,190,127)</u>    |
| TOTAL SHORT INVESTMENTS                           |                        |
| (Proceeds \$434,096,380) — (16.11)% .....         | <u>(469,859,253)</u>   |
| TOTAL NET INVESTMENTS                             |                        |
| (Cost \$2,738,546,063) — 95.49% .....             | 2,785,984,838          |
| OTHER ASSETS IN EXCESS OF LIABILITIES — 4.51% ... | <u>131,521,602</u>     |
| TOTAL NET ASSETS — 100.00% .....                  | <u>\$2,917,506,440</u> |

ADR – American Depository Receipt

ETF – Exchange-Traded Fund

plc – Public Limited Company

REITs – Real Estate Investment Trusts

(a) Non-income producing security.

(b) Foreign security.

(c) The rate quoted is the annualized seven-day yield as of December 31, 2016.

(d) Security fair valued by the Valuation Group in good faith in accordance with the policies adopted by the Board of Trustees.

(e) All or a portion of the shares have been committed as collateral for open securities sold short, written option contracts, swap contracts, and forward currency exchange contracts.

(f) Level 2 Security. Please see Note 2 in the Notes to the Financial Statements for more information.

(g) Level 3 Security. Please see Note 2 in the Notes to the Financial Statements for more information.

(h) Default or other conditions exist and the security is not presently accruing income.

(i) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration normally to qualified institutional buyers. As of December 31, 2016, these securities represent 2.29% of total net assets.

(j) Restricted security. Please see Note 2 in the Notes to the Financial Statements for more information. As of December 31, 2016, these securities represent 6.37% of total net assets.

The accompanying notes are an integral part of these financial statements.



**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF INVESTMENTS**  
**December 31, 2016**

| <u>Shares</u>             |  | <u>Value</u>     |
|---------------------------|--|------------------|
| LONG INVESTMENTS — 95.88% |  |                  |
| COMMON STOCKS — 74.32%    |  |                  |
|                           | AEROSPACE & DEFENSE — 1.55%  |                  |
| 29,049                    | B/E Aerospace, Inc. (d) . . . . .                                      | \$ 1,748,459     |
|                           | ALTERNATIVE CARRIERS — 1.71%   |                  |
| 34,170                    | Level 3 Communications, Inc. (a)(d) . . . . .                          | 1,925,821        |
|                           | APPLICATION SOFTWARE — 1.11%   |                  |
| 34,063                    | Mentor Graphics Corporation . . . . .                                  | 1,256,584        |
|                           | ASSET MANAGEMENT & CUSTODY BANKS — 0.99%                               |                  |
| 75,057                    | NorthStar Asset Management Group, Inc. (d) . . . . .                   | 1,119,850        |
|                           | AUTO PARTS & EQUIPMENT — 0.34%   |                  |
| 6,470                     | Adient plc (a)(b) . . . . .  | 379,147          |
|                           | BROADCASTING — 2.17%   |                  |
| 27,200                    | CBS Corporation Class B . . . . .                                      | 1,730,464        |
| 38,266                    | Media General, Inc. (a)(d) . . . . .                                   | 720,549          |
|                           |  | <u>2,451,013</u> |
|                           | BUILDING PRODUCTS — 2.36%  |                  |
| 64,700                    | Johnson Controls International plc (b)(d) . . . . .                    | 2,664,993        |
|                           | CABLE & SATELLITE — 2.60%  |                  |
| 84,942                    | Liberty Media Corporation-Liberty<br>SiriusXM Class A (a)(d) . . . . . | 2,932,198        |
|                           | CASINOS & GAMING — 3.28%   |                  |
| 29,538                    | Isle of Capri Casinos, Inc. (a)(d) . . . . .                           | 729,293          |
| 103,200                   | MGM Resorts International (a)(d) . . . . .                             | 2,975,256        |
|                           |  | <u>3,704,549</u> |
|                           | COMMODITY CHEMICALS — 0.07%  |                  |
| 3,521                     | Valvoline, Inc. (d) . . . . .  | 75,701           |
|                           | CONSUMER ELECTRONICS — 3.70%   |                  |
| 37,572                    | Harman International Industries, Inc. (d) . . . . .                    | 4,176,503        |
|                           | DIVERSIFIED CHEMICALS — 1.44%  |                  |
| 28,530                    | The Dow Chemical Company . . . . .                                     | 1,632,487        |
|                           | FERTILIZERS & AGRICULTURAL CHEMICALS — 1.58%                           |                  |
| 17,000                    | Monsanto Company (d) . . . . .   | 1,788,570        |
|                           | FINANCIAL EXCHANGES & DATA — 0.33%                                     |                  |
| 11,163                    | Bats Global Markets, Inc. . . . .                                      | 374,072          |
|                           | HEALTH CARE EQUIPMENT — 3.36%  |                  |
| 47,363                    | St. Jude Medical, Inc. (d) . . . . .                                   | 3,798,039        |

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Shares</u> |  | <u>Value</u>     |
|---------------|--|------------------|
|               | HEALTH CARE SERVICES — 0.57%                         |                  |
| 14,715        | Team Health Holdings, Inc. (a)(d) . . . . .          | \$ 639,367       |
|               | HOUSEWARES & SPECIALTIES — 3.43%                     |                  |
| 61,683        | Jarden Corporation (a)(c)(f)(i) . . . . .            | 3,872,835        |
|               | INDUSTRIAL CONGLOMERATES — 1.05%                     |                  |
| 37,600        | General Electric Company . . . . .                   | 1,188,160        |
|               | INTERNET SOFTWARE & SERVICES — 4.50%                 |                  |
| 131,416       | Yahoo!, Inc. (a)(d) . . . . .                        | 5,081,857        |
|               | MOVIES & ENTERTAINMENT — 3.07%                       |                  |
| 47,456        | News Corporation Class A (d) . . . . .               | 543,846          |
| 30,344        | Time Warner, Inc. (d) . . . . .                      | 2,929,106        |
|               |  | <u>3,472,952</u> |
|               | MULTI-LINE INSURANCE — 0.84%                         |                  |
| 14,500        | American International Group, Inc. . . . .           | 946,995          |
|               | OIL & GAS & CONSUMABLE FUELS — 0.71%                 |                  |
| 22,297        | Energy Transfer Partners LP . . . . .                | 798,456          |
|               | OIL & GAS EQUIPMENT & SERVICES — 5.49%               |                  |
| 54,400        | Baker Hughes, Inc. (d) . . . . .                     | 3,534,368        |
| 74,466        | FMC Technologies, Inc. (a)(c)(e) . . . . .           | 2,669,532        |
|               |  | <u>6,203,900</u> |
|               | OIL & GAS REFINING & MARKETING — 0.56%               |                  |
| 67,708        | Showa Shell Sekiyu K.K. (b) . . . . .                | 629,721          |
|               | OIL & GAS STORAGE & TRANSPORTATION — 2.36%           |                  |
| 38,718        | Columbia Pipeline Group, Inc. (a)(c)(f)(i) . . . . . | 995,684          |
| 97,326        | Columbia Pipeline Partners LP (d) . . . . .          | 1,669,141        |
|               |  | <u>2,664,825</u> |
|               | PACKAGED FOODS & MEATS — 3.79%                       |                  |
| 90,677        | Lamb Weston Holdings, Inc. (d) . . . . .             | 3,432,137        |
| 15,185        | The WhiteWave Foods Company (a)(d) . . . . .         | 844,286          |
|               |  | <u>4,276,423</u> |
|               | PERSONAL PRODUCTS — 0.24%                            |                  |
| 14,798        | Coty, Inc. Class A . . . . .                         | 270,951          |
|               | PHARMACEUTICALS — 0.57%                              |                  |
| 3,058         | Allergan plc (a)(b) . . . . .                        | 642,211          |
|               | REGIONAL BANKS — 2.31%                               |                  |
| 52,800        | CIT Group, Inc. . . . .                              | 2,253,504        |
| 6,603         | PrivateBancorp, Inc. . . . .                         | 357,817          |
|               |  | <u>2,611,321</u> |

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Shares</u> |  | <u>Value</u>             |
|---------------|--|--------------------------|
|               | REITs — 1.42%  |                          |
| 52,263        | NorthStar Realty Finance Corporation (d) . . . . .             | \$ 791,784               |
| 34,314        | Starwood Property Trust, Inc. (d) . . . . .                    | 753,192                  |
| 37,098        | Wheeler Real Estate Investment Trust, Inc. . . . .             | 63,067                   |
|               |  | <u>1,608,043</u>         |
|               | RESTAURANTS — 3.22%  |                          |
| 23,600        | Bob Evans Farms, Inc. (d) . . . . .                            | 1,255,756                |
| 26,600        | Yum China Holdings, Inc. (a) . . . . .                         | 694,792                  |
| 26,600        | Yum! Brands, Inc. (d) . . . . .                                | 1,684,578                |
|               |  | <u>3,635,126</u>         |
|               | SEMICONDUCTORS — 2.82%   |                          |
| 27,467        | Intersil Corporation Class A (d) . . . . .                     | 612,514                  |
| 35,604        | Linear Technology Corporation (d) . . . . .                    | 2,219,910                |
| 3,628         | NXP Semiconductors NV (a)(b) . . . . .                         | 355,580                  |
|               |  | <u>3,188,004</u>         |
|               | SPECIALIZED FINANCE — 0.54%                                    |                          |
| 25,870        | Hennessy Capital Acquisition Corporation II (a) . . . . .      | 261,028                  |
| 35,377        | Pacific Special Acquisition Corporation (a)(b)(d)(e) . . . . . | 365,268                  |
|               |  | <u>626,296</u>           |
|               | SPECIALTY CHEMICALS — 2.06%                                    |                          |
| 21,300        | Ashland Global Holdings, Inc. (d) . . . . .                    | 2,327,877                |
|               | SYSTEMS SOFTWARE — 0.87%                                       |                          |
| 17,878        | Dell Technologies, Inc. Class V (a) . . . . .                  | 982,754                  |
|               | TECHNOLOGY HARDWARE,<br>STORAGE & PERIPHERALS — 3.94%          |                          |
| 192,200       | Hewlett Packard Enterprise Company (d) . . . . .               | 4,447,508                |
|               | TOBACCO — 3.37%  |                          |
| 67,850        | Reynolds American, Inc. (d) . . . . .                          | 3,802,314                |
|               | <b>TOTAL COMMON STOCKS (Cost \$79,883,993) . . . . .</b>       | <u><b>83,945,882</b></u> |
|               | CLOSED-END FUNDS — 10.20%                                      |                          |
| 238,253       | American Capital Ltd. (a)(d) . . . . .                         | 4,269,494                |
| 82,764        | BlackRock Debt Strategies Fund, Inc. . . . .                   | 938,544                  |
| 64,041        | BlackRock Floating Rate Income Strategies Fund, Inc. . . . .   | 922,831                  |
| 64,691        | First Trust Senior Floating Rate Income Fund II (d) . . . . .  | 894,676                  |
| 279,814       | Invesco Senior Income Trust . . . . .                          | 1,298,337                |
| 113,092       | Nuveen Credit Strategies Income Fund . . . . .                 | 1,000,864                |
| 220,181       | Voya Prime Rate Trust (d) . . . . .                            | 1,219,803                |

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Shares</u>                       |   | <u>Value</u>      |
|-------------------------------------|---|-------------------|
| 195,533                             | Western Asset High Income Opportunity Fund, Inc. . . . .  | \$ 975,709        |
|                                     | TOTAL CLOSED-END FUNDS (Cost \$10,761,449) . . . . .  | <u>11,520,258</u> |
| <br>PREFERRED STOCKS — 0.88%        |   |                   |
| 17,525                              | NorthStar Realty Finance Corporation,<br>8.250%, Series B . . . . .   | 437,599           |
| 21,830                              | NorthStar Realty Finance Corporation,<br>8.750%, Series E (d) . . . . .   | <u>561,031</u>    |
|                                     | TOTAL PREFERRED STOCKS (Cost \$998,585) . . . . .   | <u>998,630</u>    |
| <br>CONTINGENT VALUE RIGHTS — 0.00% |   |                   |
| 5,338                               | Casa Ley, S.A. de C.V. (a)(f) . . . . .   | 1,868             |
| 5,338                               | Property Development Centers LLC (a)(f) . . . . .   | <u>267</u>        |
|                                     | TOTAL CONTINGENT VALUE RIGHTS (Cost \$0) . . . . .  | <u>2,135</u>      |
| <br>RIGHTS — 0.02%                  |   |                   |
| 35,377                              | Pacific Special Acquisition Corporation (a)(b) . . . . .  | <u>18,750</u>     |
|                                     | TOTAL RIGHTS (Cost \$8,171) . . . . .   | <u>18,750</u>     |
| <br>WARRANTS — 0.01%                |   |                   |
| 35,377                              | Pacific Special Acquisition Corporation (a)(b) . . . . .  | <u>9,906</u>      |
|                                     | TOTAL WARRANTS (Cost \$3,112) . . . . .   | <u>9,906</u>      |
| <br><u>Principal Amount</u>         |   |                   |
| CORPORATE BONDS — 10.07% (e)        |   |                   |
| \$1,417,000                         | Caesars Entertainment Operating Company, Inc.<br>10.750%, 2/1/2016 (g) . . . . .                                      | 1,218,620         |
| 2,799,000                           | Caesars Growth Properties Holdings LLC /<br>Caesars Growth Properties Finance, Inc.<br>9.375%, 5/1/2022 (d) . . . . . | 3,029,917         |
| 634,000                             | Change Healthcare Holdings, Inc.<br>11.000%, 12/31/2019 . . . . .   | 654,764           |
| 430,830                             | Energy Future Intermediate Holding Company LLC<br>11.000%, 10/1/2021 (g) . . . . .                                    | 577,312           |
| 1,032,248                           | 11.750%, 3/1/2022 (g)(h) . . . . .  | 1,409,018         |
| 1,104,000                           | FairPoint Communications, Inc.<br>8.750%, 8/15/2019 (h) . . . . .   | 1,153,680         |
| 232,000                             | JBS USA LUX SA / JBS USA Finance, Inc.<br>8.250%, 2/1/2020 (h) . . . . .  | 238,960           |

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Principal Amount</u> | <u>Value</u>  |
|-------------------------|---|
|                         | Rite Aid Corporation  |
| \$ 747,000              | 6.750%, 6/15/2021 . . . . . \$ 785,214                                |
| 150,000                 | 6.125%, 4/1/2023 (h) . . . . . 161,813                                |
|                         | Team Health, Inc.   |
| 516,000                 | 7.250%, 12/15/2023 (h) . . . . . 588,240                              |
|                         | The WhiteWave Foods Company   |
| 1,419,000               | 5.375%, 10/1/2022 . . . . . 1,559,126                                 |
|                         | <u>TOTAL CORPORATE BONDS (Cost \$10,904,211) . . . . . 11,376,664</u> |

**Contracts (100 shares per contract)**

**PURCHASED CALL OPTIONS — 0.00%**

|    |   |
|----|---|
|    | Rockwell Collins, Inc.  |
| 15 | Expiration: January 2017, Exercise Price: \$100.00 . . . . . 855    |
|    | SPDR S&P 500 ETF Trust  |
| 62 | Expiration: February 2017, Exercise Price: \$237.00 . . . . . 1,178 |
|    | <u>2,033</u>  |

**PURCHASED PUT OPTIONS — 0.15%**

|     |   |
|-----|---|
|     | Allergan plc  |
| 26  | Expiration: January 2017, Exercise Price: \$175.00 . . . . . 858    |
| 29  | Expiration: February 2017, Exercise Price: \$180.00 . . . . . 5,365 |
|     | American International Group, Inc.                                  |
| 384 | Expiration: February 2017, Exercise Price: \$57.50 . . . . . 15,360 |
|     | Ashland Global Holdings, Inc.                                       |
| 129 | Expiration: January 2017, Exercise Price: \$100.00 . . . . . 2,903  |
|     | Baker Hughes, Inc.  |
| 195 | Expiration: January 2017, Exercise Price: \$55.00 . . . . . 1,950   |
| 175 | Expiration: January 2017, Exercise Price: \$60.00 . . . . . 6,300   |
| 174 | Expiration: February 2017, Exercise Price: \$57.50 . . . . . 10,005 |
|     | The Blackstone Group LP   |
| 119 | Expiration: January 2017, Exercise Price: \$21.00 . . . . . 535     |
|     | Bob Evans Farms, Inc.   |
| 236 | Expiration: January 2017, Exercise Price: \$45.00 . . . . . 10,030  |
|     | CBS Corporation Class B   |
| 58  | Expiration: January 2017, Exercise Price: \$47.50 . . . . . 435     |
| 90  | Expiration: January 2017, Exercise Price: \$50.00 . . . . . 855     |
| 19  | Expiration: January 2017, Exercise Price: \$52.50 . . . . . 114     |
| 187 | Expiration: January 2017, Exercise Price: \$57.50 . . . . . 3,553   |
|     | CIT Group, Inc.   |
| 395 | Expiration: January 2017, Exercise Price: \$39.00 . . . . . 7,505   |
| 133 | Expiration: February 2017, Exercise Price: \$38.00 . . . . . 6,650  |

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Contracts (100 shares per contract)</u> |   | <u>Value</u>   |
|--|---|----------------|
|  | General Electric Company                                      |                |
| 376  | Expiration: February 2017, Exercise Price: \$27.00 . . . . .  | \$ 2,632       |
|  | General Motors Company  |                |
| 16   | Expiration: January 2017, Exercise Price: \$29.00 . . . . .   | 64             |
|  | Hewlett Packard Enterprise Company                            |                |
| 1,282                                      | Expiration: January 2017, Exercise Price: \$19.00 . . . . .   | 3,205          |
| 157  | Expiration: January 2017, Exercise Price: \$20.00 . . . . .   | 785            |
| 483  | Expiration: January 2017, Exercise Price: \$21.00 . . . . .   | 3,622          |
|  | Hilton Worldwide Holdings, Inc.                               |                |
| 305  | Expiration: January 2017, Exercise Price: \$20.00 . . . . .   | 762            |
|  | Johnson Controls International plc                            |                |
| 404  | Expiration: January 2017, Exercise Price: \$40.00 . . . . .   | 2,020          |
| 243  | Expiration: January 2017, Exercise Price: \$42.00 . . . . .   | 3,767          |
|  | Lamb Weston Holdings, Inc.                                    |                |
| 904  | Expiration: January 2017, Exercise Price: \$30.00 . . . . .   | 13,560         |
|  | MetLife, Inc.   |                |
| 617  | Expiration: January 2017, Exercise Price: \$40.00 . . . . .   | 1,234          |
|  | MGM Resorts International                                     |                |
| 1,032                                      | Expiration: February 2017, Exercise Price: \$24.00 . . . . .  | 15,480         |
|  | SPDR S&P 500 ETF Trust  |                |
| 63   | Expiration: January 2017, Exercise Price: \$227.00 . . . . .  | 27,689         |
| 16   | Expiration: February 2017, Exercise Price: \$226.00 . . . . . | 8,168          |
|  | Yum! Brands, Inc.   |                |
| 139  | Expiration: January 2017, Exercise Price: \$72.50 . . . . .   | 3,545          |
| 127  | Expiration: January 2017, Exercise Price: \$80.00 . . . . .   | 2,540          |
|  |   | <u>161,491</u> |
|  | TOTAL PURCHASED OPTIONS (Cost \$346,373) . . . . .            | <u>163,524</u> |

**Principal Amount**

|                      |  |                    |
|----------------------|--|--------------------|
| ESCROW NOTES — 0.23% |  |                    |
| \$28,850             | AMR Corporation (a)(c)(f) . . . . .          | 38,947             |
| 26,484               | Winthrop Realty Trust (a)(c)(f) . . . . .    | 218,493            |
|                      | TOTAL ESCROW NOTES (Cost \$21,637) . . . . . | <u>257,440</u>     |
|                      | TOTAL LONG INVESTMENTS                       |                    |
|                      | (Cost \$102,927,531) — 95.88% . . . . .      | <u>108,293,189</u> |

**Shares**

|                               |                                |                  |
|-------------------------------|--------------------------------|------------------|
| SHORT INVESTMENTS — (17.76)%  |                                |                  |
| COMMON STOCKS — (16.08)%      |                                |                  |
| AEROSPACE & DEFENSE — (0.50)% |                                |                  |
| (6,100)                       | Rockwell Collins, Inc. . . . . | <u>(565,836)</u> |

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Shares</u> |  | <u>Value</u>     |
|---------------|--|------------------|
|               | AIRLINES — (0.06)%                                 |                  |
| (1,443)       | American Airlines Group, Inc. ....                 | \$ (67,374)      |
|               | BROADCASTING — (0.27)%                             |                  |
| (4,777)       | Nexstar Broadcasting Group, Inc. Class A ....      | (302,384)        |
|               | CABLE & SATELLITE — (3.15)%                        |                  |
| (799,775)     | Sirius XM Holdings, Inc. ....                      | (3,558,999)      |
|               | CASINOS & GAMING — (0.30)%                         |                  |
| (20,319)      | Eldorado Resorts, Inc. ....                        | (344,407)        |
|               | CONSTRUCTION MACHINERY &<br>HEAVY TRUCKS — (0.27)% |                  |
| (10,714)      | Joy Global, Inc. ....                              | (299,992)        |
|               | DIVERSIFIED BANKS — (0.17)%                        |                  |
| (2,415)       | Canadian Imperial Bank of Commerce (b) ....        | (197,064)        |
|               | DIVERSIFIED CHEMICALS — (1.45)%                    |                  |
| (22,253)      | E. I. Du Pont de Nemours and Company ....          | (1,633,370)      |
|               | FINANCIAL EXCHANGES & DATA — (0.23)%               |                  |
| (3,569)       | CBOE Holdings, Inc. ....                           | (263,713)        |
|               | HEALTH CARE EQUIPMENT — (1.40)%                    |                  |
| (41,155)      | Abbott Laboratories ....                           | (1,580,763)      |
|               | INTEGRATED TELECOMMUNICATION<br>SERVICES — (0.64)% |                  |
| (3,062)       | AT&T, Inc. ....                                    | (130,227)        |
| (25,168)      | CenturyLink, Inc. ....                             | (598,495)        |
|               |  | <u>(728,722)</u> |
|               | INTERNET SOFTWARE & SERVICES — (3.64)%             |                  |
| (46,782)      | Alibaba Group Holding Ltd. — ADR ....              | (4,107,927)      |
|               | MOVIES & ENTERTAINMENT — (0.50)%                   |                  |
| (47,456)      | News Corporation Class B ....                      | (559,981)        |
|               | OIL & GAS & CONSUMABLE FUELS — (0.71)%             |                  |
| (33,442)      | Sunoco Logistics Partners LP ....                  | (803,277)        |
|               | OIL & GAS REFINING & MARKETING — (0.80)%           |                  |
| (33,901)      | Idemitsu Kosan Company, Ltd. (b) ....              | (900,643)        |
|               | SEMICONDUCTORS — (0.53)%                           |                  |
| (8,264)       | Analog Devices, Inc. ....                          | (600,132)        |
|               | SOFTWARE — (1.12)%                                 |                  |
| (16,041)      | VMware, Inc. Class A ....                          | (1,262,908)      |

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2016**

| <u>Shares</u>                                     | <u>Value</u>                |
|---|-----------------------------|
| TOBACCO — (0.34)%                                 |                             |
| (3,425) British American Tobacco PLC — ADR .....  | \$ (385,895)                |
| TOTAL COMMON STOCKS                               |                             |
| (Proceeds \$16,200,469) .....                     | <u>(18,163,387)</u>         |
| CLOSED-END FUNDS — (1.68)%                        |                             |
| (115,076) Ares Capital Corporation .....          | <u>(1,897,603)</u>          |
| TOTAL CLOSED-END FUNDS                            |                             |
| (Proceeds \$1,756,069) .....                      | <u>(1,897,603)</u>          |
| TOTAL SHORT INVESTMENTS                           |                             |
| (Proceeds \$17,956,538) — (17.76)% .....          | <u>(20,060,990)</u>         |
| TOTAL NET INVESTMENTS                             |                             |
| (Cost \$84,970,993) — 78.12% .....                | 88,232,199                  |
| OTHER ASSETS IN EXCESS OF LIABILITIES — 21.88% .. | <u>24,714,506</u>           |
| TOTAL NET ASSETS — 100.00% .....                  | <u><u>\$112,946,705</u></u> |

ADR – American Depository Receipt

ETF – Exchange-Traded Fund

plc – Public Limited Company

REITs – Real Estate Investment Trusts

(a) Non-income producing security.

(b) Foreign security.

(c) Security fair valued by the Valuation Group in good faith in accordance with the policies adopted by the Board of Trustees.

(d) All or a portion of the shares have been committed as collateral for open securities sold short, written option contracts, swap contacts, and forward currency exchange contracts.

(e) Level 2 Security. Please see Note 2 in the Notes to the Financial Statements for more information.

(f) Level 3 Security. Please see Note 2 in the Notes to the Financial Statements for more information.

(g) Default or other conditions exist and the security is not presently accruing income.

(h) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration normally to qualified institutional buyers. As of December 31, 2016, these securities represent 3.14% of total net assets.

(i) Restricted security. Please see Note 2 in the Notes to the Financial Statements for more information. As of December 31, 2016, these securities represent 4.31% of total net assets.

The accompanying notes are an integral part of these financial statements.



**The Merger Fund**  
**SCHEDULE OF OPTIONS WRITTEN**  
**December 31, 2016**

| <u>Contracts (100 shares per contract)</u>                          | <u>Value</u> |
|---|--------------|
| CALL OPTIONS WRITTEN  |              |
| American International Group, Inc.                                  |              |
| 2,247 Expiration: February 2017, Exercise Price: \$62.50 . . . . .  | \$ 904,418   |
| 8,865 Expiration: February 2017, Exercise Price: \$65.00 . . . . .  | 2,012,355    |
| Ashland Global Holdings, Inc.                                       |              |
| 2,722 Expiration: January 2017, Exercise Price: \$105.00 . . . . .  | 1,374,610    |
| 1,133 Expiration: January 2017, Exercise Price: \$110.00 . . . . .  | 186,945      |
| 2,721 Expiration: January 2017, Exercise Price: \$115.00 . . . . .  | 97,956       |
| AT&T, Inc.  |              |
| 1,748 Expiration: February 2017, Exercise Price: \$37.00 . . . . .  | 966,644      |
| Baker Hughes, Inc.  |              |
| 4,553 Expiration: January 2017, Exercise Price: \$63.00 . . . . .   | 1,340,859    |
| 4,518 Expiration: February 2017, Exercise Price: \$62.50 . . . . .  | 1,841,085    |
| CBS Corporation Class B   |              |
| 3,192 Expiration: January 2017, Exercise Price: \$57.50 . . . . .   | 2,055,648    |
| 4,582 Expiration: January 2017, Exercise Price: \$61.50 . . . . .   | 1,353,981    |
| CenturyLink, Inc.   |              |
| 2,588 Expiration: April 2017, Exercise Price: \$22.00 . . . . .     | 608,180      |
| 3,379 Expiration: April 2017, Exercise Price: \$23.00 . . . . .     | 560,914      |
| CIT Group, Inc.   |              |
| 1,664 Expiration: January 2017, Exercise Price: \$35.00 . . . . .   | 1,289,600    |
| 10,195 Expiration: January 2017, Exercise Price: \$42.00 . . . . .  | 1,447,690    |
| The Dow Chemical Company  |              |
| 5,084 Expiration: January 2017, Exercise Price: \$56.00 . . . . .   | 963,418      |
| General Motors Company  |              |
| 388 Expiration: January 2017, Exercise Price: \$32.00 . . . . .     | 118,340      |
| Hewlett Packard Enterprise Company                                  |              |
| 9,600 Expiration: January 2017, Exercise Price: \$21.00 . . . . .   | 2,054,400    |
| 9,727 Expiration: January 2017, Exercise Price: \$22.00 . . . . .   | 1,352,053    |
| 12,559 Expiration: January 2017, Exercise Price: \$22.50 . . . . .  | 1,161,707    |
| Hilton Worldwide Holdings, Inc.                                     |              |
| 1,604 Expiration: January 2017, Exercise Price: \$22.00 . . . . .   | 834,080      |
| 670 Expiration: January 2017, Exercise Price: \$23.00 . . . . .     | 281,400      |
| 21,555 Expiration: February 2017, Exercise Price: \$25.00 . . . . . | 5,518,080    |
| Johnson Controls International plc                                  |              |
| 1,033 Expiration: January 2017, Exercise Price: \$44.00 . . . . .   | 359,484      |
| 3,001 Expiration: January 2017, Exercise Price: \$45.00 . . . . .   | 750,250      |
| 292 Expiration: January 2017, Exercise Price: \$47.00 . . . . .     | 35,186       |
| Lamb Weston Holdings, Inc.  |              |
| 5,907 Expiration: January 2017, Exercise Price: \$35.00 . . . . .   | 2,008,380    |
| Monsanto Company  |              |
| 4,126 Expiration: January 2017, Exercise Price: \$105.00 . . . . .  | 552,884      |

The accompanying notes are an integral part of these financial statements.

**The Merger Fund**  
**SCHEDULE OF OPTIONS WRITTEN (continued)**  
**December 31, 2016**

| <u>Contracts (100 shares per contract)</u> |   | <u>Value</u>               |
|--|---|----------------------------|
|  | NXP Semiconductors NV   |                            |
| 393  | Expiration: January 2017, Exercise Price: \$97.00 . . . . .   | \$ 58,950                  |
| 302  | Expiration: January 2017, Exercise Price: \$100.00 . . . . .  | 3,020                      |
|  | Reynolds American, Inc.                                       |                            |
| 1,395                                      | Expiration: January 2017, Exercise Price: \$52.50 . . . . .   | 571,950                    |
| 1,930                                      | Expiration: February 2017, Exercise Price: \$55.00 . . . . .  | 434,250                    |
| 530  | Expiration: February 2017, Exercise Price: \$57.50 . . . . .  | 50,350                     |
|  | Rockwell Collins, Inc.  |                            |
| 245  | Expiration: January 2017, Exercise Price: \$90.00 . . . . .   | 109,270                    |
|  | SPDR S&P 500 ETF Trust  |                            |
| 1,576                                      | Expiration: February 2017, Exercise Price: \$229.00 . . . . . | 230,096                    |
|  | Time Warner, Inc.   |                            |
| 1,384                                      | Expiration: January 2017, Exercise Price: \$85.00 . . . . .   | 1,612,360                  |
| 821  | Expiration: January 2017, Exercise Price: \$90.00 . . . . .   | 541,039                    |
| 926  | Expiration: January 2017, Exercise Price: \$94.00 . . . . .   | 250,483                    |
| 3,182                                      | Expiration: April 2017, Exercise Price: \$90.00 . . . . .     | 2,410,365                  |
|  | The Valspar Corporation                                       |                            |
| 823  | Expiration: April 2017, Exercise Price: \$105.00 . . . . .    | 164,600                    |
|  | Yum! Brands, Inc.   |                            |
| 881  | Expiration: January 2017, Exercise Price: \$82.50 . . . . .   | 625,510                    |
| 3,302                                      | Expiration: January 2017, Exercise Price: \$87.50 . . . . .   | 908,050                    |
|  |   | <u>40,000,840</u>          |
| <br>PUT OPTIONS WRITTEN                    |   |                            |
|  | Alibaba Group Holding Ltd.                                    |                            |
| 543  | Expiration: February 2017, Exercise Price: \$90.00 . . . . .  | 287,790                    |
|  | SPDR S&P 500 ETF Trust  |                            |
| 1,583                                      | Expiration: January 2017, Exercise Price: \$213.00 . . . . .  | 74,401                     |
| 394  | Expiration: February 2017, Exercise Price: \$213.00 . . . . . | 59,494                     |
|  |   | <u>421,685</u>             |
|  | <b>TOTAL OPTIONS WRITTEN</b>                                  |                            |
|  | (Premiums received \$38,764,439) . . . . .                    | <u><u>\$40,422,525</u></u> |

ETF – Exchange-Traded Fund  
plc – Public Limited Company

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF OPTIONS WRITTEN**  
**December 31, 2016**

| <u>Contracts (100 shares per contract)</u>                        | <u>Value</u> |
|---|--------------|
| CALL OPTIONS WRITTEN  |              |
| Allergan plc  |              |
| 26 Expiration: January 2017, Exercise Price: \$190.00 . . . . .   | \$ 55,900    |
| 29 Expiration: February 2017, Exercise Price: \$190.00 . . . . .  | 68,730       |
| American International Group, Inc.                                |              |
| 459 Expiration: February 2017, Exercise Price: \$62.50 . . . . .  | 184,747      |
| Ashland Global Holdings, Inc.                                     |              |
| 103 Expiration: January 2017, Exercise Price: \$110.00 . . . . .  | 16,995       |
| 18 Expiration: January 2017, Exercise Price: \$115.00 . . . . .   | 648          |
| AT&T, Inc.  |              |
| 70 Expiration: February 2017, Exercise Price: \$37.00 . . . . .   | 38,710       |
| Baker Hughes, Inc.  |              |
| 185 Expiration: January 2017, Exercise Price: \$60.00 . . . . .   | 98,420       |
| 175 Expiration: January 2017, Exercise Price: \$63.00 . . . . .   | 51,537       |
| 10 Expiration: January 2017, Exercise Price: \$65.00 . . . . .    | 1,700        |
| 174 Expiration: February 2017, Exercise Price: \$62.50 . . . . .  | 70,905       |
| The Blackstone Group LP   |              |
| 8 Expiration: January 2017, Exercise Price: \$24.00 . . . . .     | 2,424        |
| Bob Evans Farms, Inc.   |              |
| 213 Expiration: January 2017, Exercise Price: \$50.00 . . . . .   | 77,745       |
| 23 Expiration: January 2017, Exercise Price: \$55.00 . . . . .    | 1,552        |
| CBS Corporation Class B   |              |
| 118 Expiration: January 2017, Exercise Price: \$57.50 . . . . .   | 75,992       |
| 168 Expiration: January 2017, Exercise Price: \$62.50 . . . . .   | 38,808       |
| CenturyLink, Inc.   |              |
| 103 Expiration: April 2017, Exercise Price: \$22.00 . . . . .     | 24,205       |
| 134 Expiration: April 2017, Exercise Price: \$23.00 . . . . .     | 22,244       |
| CIT Group, Inc.   |              |
| 395 Expiration: January 2017, Exercise Price: \$42.00 . . . . .   | 56,090       |
| 133 Expiration: February 2017, Exercise Price: \$41.00 . . . . .  | 37,572       |
| General Electric Company  |              |
| 357 Expiration: February 2017, Exercise Price: \$31.00 . . . . .  | 41,055       |
| General Motors Company  |              |
| 16 Expiration: January 2017, Exercise Price: \$32.00 . . . . .    | 4,880        |
| Hewlett Packard Enterprise Company                                |              |
| 1,439 Expiration: January 2017, Exercise Price: \$22.00 . . . . . | 200,021      |
| 483 Expiration: January 2017, Exercise Price: \$22.50 . . . . .   | 44,678       |
| Johnson Controls International plc                                |              |
| 67 Expiration: January 2017, Exercise Price: \$44.00 . . . . .    | 23,316       |
| 248 Expiration: January 2017, Exercise Price: \$45.00 . . . . .   | 62,000       |
| 89 Expiration: January 2017, Exercise Price: \$47.00 . . . . .    | 10,725       |
| 243 Expiration: January 2017, Exercise Price: \$49.00 . . . . .   | 9,477        |

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF OPTIONS WRITTEN (continued)**  
**December 31, 2016**

| <u>Contracts (100 shares per contract)</u> |   | <u>Value</u>              |
|--|---|---------------------------|
|  | Lamb Weston Holdings, Inc.                                    |                           |
| 815  | Expiration: January 2017, Exercise Price: \$35.00 . . . . .   | \$ 277,100                |
|  | MGM Resorts International                                     |                           |
| 1,032                                      | Expiration: February 2017, Exercise Price: \$27.00 . . . . .  | 253,356                   |
|  | Monsanto Company  |                           |
| 121  | Expiration: January 2017, Exercise Price: \$105.00 . . . . .  | 16,214                    |
|  | NXP Semiconductors NV   |                           |
| 12   | Expiration: January 2017, Exercise Price: \$100.00 . . . . .  | 120                       |
|  | Reynolds American, Inc.                                       |                           |
| 55   | Expiration: January 2017, Exercise Price: \$52.50 . . . . .   | 22,550                    |
| 77   | Expiration: February 2017, Exercise Price: \$55.00 . . . . .  | 17,325                    |
| 21   | Expiration: February 2017, Exercise Price: \$57.50 . . . . .  | 1,995                     |
|  | Rockwell Collins, Inc.  |                           |
| 12   | Expiration: January 2017, Exercise Price: \$90.00 . . . . .   | 5,352                     |
|  | SPDR S&P 500 ETF Trust  |                           |
| 62   | Expiration: February 2017, Exercise Price: \$229.00 . . . . . | 9,052                     |
|  | Time Warner, Inc.   |                           |
| 54   | Expiration: January 2017, Exercise Price: \$85.00 . . . . .   | 62,910                    |
| 33   | Expiration: January 2017, Exercise Price: \$90.00 . . . . .   | 21,747                    |
| 127  | Expiration: April 2017, Exercise Price: \$90.00 . . . . .     | 96,203                    |
|  | The Valspar Corporation                                       |                           |
| 33   | Expiration: April 2017, Exercise Price: \$105.00 . . . . .    | 6,600                     |
|  | Yum! Brands, Inc.   |                           |
| 125  | Expiration: January 2017, Exercise Price: \$85.00 . . . . .   | 57,500                    |
| 127  | Expiration: January 2017, Exercise Price: \$87.50 . . . . .   | 34,925                    |
| 14   | Expiration: January 2017, Exercise Price: \$90.00 . . . . .   | 1,750                     |
|  |   | <u>2,205,775</u>          |
| <b>PUT OPTIONS WRITTEN</b>                 |   |                           |
|  | Alibaba Group Holding Ltd.                                    |                           |
| 21   | Expiration: February 2017, Exercise Price: \$90.00 . . . . .  | 11,130                    |
|  | SPDR S&P 500 ETF Trust  |                           |
| 63   | Expiration: January 2017, Exercise Price: \$213.00 . . . . .  | 2,961                     |
| 16   | Expiration: February 2017, Exercise Price: \$213.00 . . . . . | 2,416                     |
|  |   | <u>16,507</u>             |
|  | <b>TOTAL OPTIONS WRITTEN</b>                                  |                           |
|  | (Premiums received \$2,044,405) . . . . .                     | <u><u>\$2,222,282</u></u> |

ETF – Exchange-Traded Fund  
plc – Public Limited Company

The accompanying notes are an integral part of these financial statements.

**The Merger Fund**  
**SCHEDULE OF FORWARD CURRENCY EXCHANGE CONTRACTS\***  
**December 31, 2016**

| <u>Settlement Date</u> | <u>Currency to be Delivered</u> |    | <u>USD Value at December 31, 2016</u> | <u>Currency to be Received</u> |    | <u>USD Value at December 31, 2016</u> | <u>Unrealized Appreciation (Depreciation)**</u> |
|------------------------|---------------------------------|----|---------------------------------------|--------------------------------|----|---------------------------------------|---|
| 1/4/17                 | 3,914,447 AUD                   | \$ | 2,824,445                             | 3,008,840 USD                  | \$ | 3,008,840                             | \$184,395                                       |
| 1/4/17                 | 2,877,483 USD                   |    | 2,877,483                             | 3,914,447 AUD                  |    | 2,824,445                             | (53,038)  |
| 12/20/17               | 77,087,950 GBP                  |    | 95,933,102                            | 96,595,519 USD                 |    | 96,595,519                            | 662,417   |
|                        |                                 |    | <u>\$101,635,030</u>                  |                                |    | <u>\$102,428,804</u>                  | <u>\$793,774</u>                                |

AUD – Australian Dollar

GBP – British Pound

USD – U.S. Dollar

\* JPMorgan Chase & Co., Inc. is the counterparty for all open forward currency exchange contracts held by the Fund as of December 31, 2016.

\*\* Net unrealized appreciation (depreciation) is a receivable (payable).

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF FORWARD CURRENCY EXCHANGE CONTRACTS\***  
**December 31, 2016**

| <u>Settlement Date</u> | <u>Currency to be Delivered</u> | <u>USD Value at December 31, 2016</u> | <u>Currency to be Received</u> | <u>USD Value at December 31, 2016</u> | <u>Unrealized Appreciation (Depreciation)**</u> |
|------------------------|---------------------------------|---------------------------------------|--------------------------------|---------------------------------------|---|
| 1/4/17                 | 385,804 AUD                     | \$ 278,375                            | 296,548 USD                    | \$ 296,548                            | \$18,173  |
| 1/4/17                 | 283,602 USD                     | 283,602                               | 385,804 AUD                    | 278,374                               | (5,228)   |
| 1/26/17                | 367,840 CHF                     | 361,963                               | 364,090 USD                    | 364,090                               | 2,127   |
| 1/26/17                | 362,618 USD                     | 362,618                               | 367,840 CHF                    | 361,963                               | (655)   |
| 12/20/17               | 3,537,702 GBP                   | <u>4,402,539</u>                      | 4,446,566 USD                  | <u>4,446,566</u>                      | <u>44,027</u>                                   |
|                        |                                 | <u>\$5,689,097</u>                    |                                | <u>\$5,747,541</u>                    | <u>\$58,444</u>                                 |

AUD – Australian Dollar

CHF – Swiss Franc

GBP – British Pound

USD – U.S. Dollar

\* JPMorgan Chase & Co., Inc. is the counterparty for all open forward currency exchange contracts held by the Fund as of December 31, 2016.

\*\* Net unrealized appreciation (depreciation) is a receivable (payable).

The accompanying notes are an integral part of these financial statements.

**The Merger Fund**  
**SCHEDULE OF SWAP CONTRACTS**  
**December 31, 2016**

| <u>Termination</u><br><u>Date</u> | <u>Security</u>                               | <u>Shares</u> | <u>Notional</u><br><u>Amount</u> | <u>Unrealized</u><br><u>Appreciation</u><br><u>(Depreciation)*</u> | <u>Counter-</u><br><u>party</u> |
|-----------------------------------|---|---------------|----------------------------------|--|---------------------------------|
| LONG TOTAL RETURN SWAP CONTRACTS  |   |               |                                  |  |                                 |
| 12/20/17                          | Allied World Assurance<br>Company Holdings AG | 12,422        | \$ 649,174                       | \$ 17,785  | BAML                            |
| 10/3/17                           | CBS Corporation Class B                       | 319,200       | 17,533,656                       | 2,727,651  | BAML                            |
| 8/5/17                            | FMC Technologies, Inc.                        | 131,870       | 3,413,837                        | 1,304,575  | BAML                            |
| 12/12/17                          | Sky plc                                       | 7,170,972     | 87,717,556                       | (166,193)  | JPM                             |
| 2/11/17                           | Syngenta AG                                   | 53,662        | 21,643,961                       | (491,706)  | BAML                            |
| SHORT TOTAL RETURN SWAP CONTRACTS |   |               |                                  |  |                                 |
| 11/23/17                          | British American<br>Tobacco plc               | (347,157)     | (18,693,530)                     | (853,855)  | BAML                            |
| 12/20/17                          | Fairfax Financial<br>Holdings Ltd.            | (376)         | (176,839)                        | (6,205)  | BAML                            |
| 8/5/17                            | Technip SA                                    | (852,097)     | (48,706,069)                     | (12,065,196)   | BAML                            |
|                                   |   |               |                                  | <u>\$ (9,533,144)</u>  |                                 |

BAML – Bank of America Merrill Lynch & Co., Inc.

JPM – JPMorgan Chase & Co., Inc.

plc – Public Limited Company

\* Based on the net swap value held at each counterparty, unrealized appreciation is a receivable and unrealized depreciation is a payable.

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**SCHEDULE OF SWAP CONTRACTS**  
**December 31, 2016**

| Termination                              |   |          | Notional    | Unrealized                      | Counter- |
|--|---|----------|-------------|---------------------------------|----------|
| Date                                     | Security                                      | Shares   | Amount      | Appreciation<br>(Depreciation)* | party    |
| <b>LONG TOTAL RETURN SWAP CONTRACTS</b>  |   |          |             |                                 |          |
| 1/19/17                                  | Allergan plc                                  | 2,442    | \$ 712,759  | \$(202,273)                     | BAML     |
| 12/20/17                                 | Allied World Assurance<br>Company Holdings AG | 491      | 25,660      | 703                             | BAML     |
| 8/26/17                                  | American International<br>Group, Inc.         | 31,400   | 1,842,057   | 207,540                         | JPM      |
| 12/12/17                                 | Cabela's, Inc.                                | 62,585   | 3,930,920   | (269,695)                       | BAML     |
| 5/6/17                                   | CBS Corporation Class B                       | 3,300    | 185,587     | 23,883                          | BAML     |
| 1/4/18                                   | Endurance Specialty<br>Holdings, Ltd.         | 37,091   | 3,427,654   | 0                               | BAML     |
| 8/5/17                                   | FMC Technologies, Inc.                        | 8,134    | 210,572     | 80,484                          | BAML     |
| 9/30/17                                  | General Motors Company                        | 1,600    | 50,368      | 5,247                           | BAML     |
| 12/6/17                                  | NXP Semiconductors NV                         | 34,740   | 3,407,394   | (5,978)                         | BAML     |
| 12/28/17                                 | Rite Aid Corporation                          | 112,720  | 927,911     | 902                             | BAML     |
| 12/12/17                                 | Sky plc                                       | 329,089  | 4,039,662   | (22,131)                        | JPM      |
| 2/11/17                                  | Syngenta AG                                   | 1,662    | 670,004     | (50,810)                        | BAML     |
| 2/16/17                                  | Syngenta AG — ADR                             | 42,209   | 3,385,989   | (14,833)                        | BAML     |
| 5/18/17                                  | The Valspar Corporation                       | 31,586   | 3,342,719   | (77,733)                        | BAML     |
| <b>SHORT TOTAL RETURN SWAP CONTRACTS</b> |   |          |             |                                 |          |
| 11/23/17                                 | British American<br>Tobacco plc               | (19,753) | (1,063,863) | (48,404)                        | BAML     |
| 12/20/17                                 | Fairfax Financial<br>Holdings Ltd.            | (15)     | (7,055)     | (248)                           | BAML     |
| 8/5/17                                   | Technip SA                                    | (41,299) | (2,351,990) | (593,519)                       | BAML     |
|  |   |          |             | <u>\$(966,865)</u>              |          |

ADR – American Depositary Receipt

BAML – Bank of America Merrill Lynch & Co., Inc.

JPM – JPMorgan Chase & Co., Inc.

plc – Public Limited Company

\* Based on the net swap value held at each counterparty, unrealized appreciation is a receivable and unrealized depreciation is a payable.

The accompanying notes are an integral part of these financial statements.



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**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**STATEMENTS OF ASSETS AND LIABILITIES**  
**December 31, 2016**

|  | <u>The Merger Fund</u>        | <u>WCM Alternatives:<br/>Event-Driven Fund</u> |
|--|-------------------------------|--|
| <b>ASSETS:</b>   |                               |  |
| Investments, at value (Cost \$3,172,642,443 and \$102,927,531, respectively) . . . . .                         | \$3,255,844,091               | \$108,293,189                                  |
| Cash . . . . .   | —                             | 2,045,190                                      |
| Cash held in foreign currency (Cost \$624 and \$18,209, respectively) . . . . .                                | 609                           | 17,021   |
| Receivable from brokers . . . . .  | 434,096,380                   | 17,956,538                                     |
| Deposits at brokers . . . . .  | 24,705,017                    | 5,363,221                                      |
| Receivable for forward<br>currency exchange contracts . . . . .  | 793,774                       | 58,444   |
| Receivable for swap contracts . . . . .  | —                             | 185,409  |
| Receivable for investments sold . . . . .  | 31,017,648                    | 9,882,126                                      |
| Receivable for fund shares issued . . . . .  | 12,041,487                    | 167,637  |
| Dividends and interest receivable . . . . .  | 6,534,501                     | 287,513  |
| Prepaid expenses and other receivables . . . . .   | 137,729                       | 20,046   |
| <b>Total Assets</b> . . . . .  | <u>3,765,171,236</u>          | <u>144,276,334</u>                             |
| <b>LIABILITIES:</b>  |                               |  |
| Securities sold short, at value (Proceeds of \$434,096,380 and \$17,956,538, respectively) . . . . .           | 469,859,253                   | 20,060,990                                     |
| Written option contracts, at value<br>(Premiums received \$38,764,439 and \$2,044,405, respectively) . . . . . | 40,422,525                    | 2,222,282                                      |
| Payable for swap contracts . . . . .   | 9,533,144                     | 1,152,274                                      |
| Payable for investments purchased . . . . .  | 311,299,299                   | 7,549,312                                      |
| Payable for fund shares redeemed . . . . .   | 10,083,644                    | 22,849   |
| Payable to the investment adviser . . . . .  | 2,304,463                     | 118,486  |
| Dividends and interest payable . . . . .   | 2,178,400                     | 79,896   |
| Accrued expenses and other liabilities . . . . .   | 1,363,956                     | 123,540  |
| Distribution fees payable . . . . .  | 620,112                       | —  |
| <b>Total Liabilities</b> . . . . .   | <u>847,664,796</u>            | <u>31,329,629</u>                              |
| <b>NET ASSETS</b> . . . . .  | <u><u>\$2,917,506,440</u></u> | <u><u>\$112,946,705</u></u>                    |

The accompanying notes are an integral part of these financial statements.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**STATEMENTS OF ASSETS AND LIABILITIES (continued)**  
**December 31, 2016**

|  | <u>The Merger Fund</u> | <u>WCM Alternatives:<br/>Event-Driven Fund</u> |
|--|------------------------|--|
| NET ASSETS CONSISTS OF:  |                        |  |
| Accumulated undistributed net investment income . . . . .  | \$ 4,961,867           | \$ 121,596                                     |
| Accumulated net realized loss on investments, securities sold short, written option contracts expired or closed, forward currency exchange contracts, swap contracts, and foreign currency translation . . . . . | (178,623,105)          | (5,422,141)                                    |
| Net unrealized appreciation (depreciation) on:   |                        |  |
| Investments . . . . .  | 83,201,648             | 5,365,658                                      |
| Securities sold short . . . . .  | (35,762,873)           | (2,104,452)                                    |
| Written option contracts . . . . .   | (1,658,086)            | (177,877)                                      |
| Forward currency exchange contracts . . . . .  | 793,774                | 58,444   |
| Swap contracts . . . . .   | (9,533,144)            | (966,865)                                      |
| Foreign currency transaction . . . . .   | (15)                   | (1,188)  |
| Net unrealized appreciation . . . . .  | 37,041,304             | 2,173,720                                      |
| Paid-in capital . . . . .  | <u>3,054,126,374</u>   | <u>116,073,530</u>                             |
| Total Net Assets . . . . .   | <u>\$2,917,506,440</u> | <u>\$112,946,705</u>                           |
| Investor Class   |                        |  |
| Net assets . . . . .   | \$1,540,465,501        |  |
| Shares outstanding . . . . .   | 98,395,393             |  |
| Net asset value and offering price per share* . . . . .  | <u>\$15.66</u>         |  |
| Institutional Class  |                        |  |
| Net assets . . . . .   | \$1,377,040,939        | \$112,946,705                                  |
| Shares outstanding . . . . .   | 88,514,873             | 11,507,642                                     |
| Net asset value and offering price per share* . . . . .  | <u>\$15.56</u>         | <u>\$ 9.81</u>                                 |

\* The redemption price per share may vary based on the length of time a shareholder holds Fund shares.

The accompanying notes are an integral part of these financial statements.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**STATEMENTS OF OPERATIONS**  
**For the Year Ended December 31, 2016**

|   | <u>The Merger Fund</u> | <u>WCM Alternatives:<br/>Event-Driven Fund</u> |
|---|------------------------|--|
| INVESTMENT INCOME:  |                        |  |
| Interest .....  | \$ 8,018,395           | \$ 211,271                                     |
| Dividend income on long positions (net of<br>foreign withholding taxes of \$245,163<br>and \$10,301 respectively) ..... | 42,187,101             | 1,913,879                                      |
| Total investment income .....   | <u>50,205,496</u>      | <u>2,125,150</u>                               |
| EXPENSES:   |                        |  |
| Investment advisory fees .....  | 38,081,985             | 1,397,013                                      |
| Distribution fees (Investor Class) .....  | 6,226,510              | —  |
| Sub transfer agent fees (Investor Class) .....  | 3,226,666              | —  |
| Sub transfer agent fees (Institutional Class) .....   | 661,917                | 110,129  |
| Administration fees .....   | 1,244,412              | 75,078   |
| Professional fees .....   | 874,227                | 152,010  |
| Reports to shareholders .....   | 668,153                | 32,740   |
| Transfer agent and shareholder<br>servicing agent fees .....  | 471,750                | 25,765   |
| Fund accounting expenses .....  | 356,493                | 39,560   |
| Custody fees .....  | 329,868                | 46,369   |
| Trustees' fees and expenses .....   | 223,095                | 15,610   |
| Federal and state registration fees .....   | 212,746                | 35,272   |
| Compliance fees .....   | 193,678                | 4,905  |
| Miscellaneous expenses .....  | 191,840                | 15,511   |
| Dividends on securities sold short .....  | 15,426,741             | 538,357  |
| Borrowing expenses on securities sold short .....   | 4,434,815              | 155,810  |
| Total expenses before expense<br>waiver/reimbursement by adviser .....  | 72,824,896             | 2,644,129                                      |
| Less: Expense waived/reimbursed<br>by adviser (Note 3) .....  | <u>(4,116,397)</u>     | <u>(5,319)</u>                                 |
| Net expenses .....  | <u>68,708,499</u>      | <u>2,638,810</u>                               |
| NET INVESTMENT LOSS .....   | <u>(18,503,003)</u>    | <u>(513,660)</u>                               |

The accompanying notes are an integral part of these financial statements.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**STATEMENTS OF OPERATIONS (continued)**  
**For the Year Ended December 31, 2016**

|  | <u>The Merger Fund</u> | <u>WCM Alternatives:<br/>Event-Driven Fund</u> |
|--|------------------------|--|
| REALIZED AND CHANGE IN UNREALIZED                    |                        |  |
| GAIN (LOSS) ON INVESTMENTS:                          |                        |  |
| Realized gain (loss) on:                             |                        |  |
| Investments . . . . .                                | \$ (27,318,383)        | \$(2,184,524)                                  |
| Securities sold short . . . . .                      | (81,956,964)           | (3,209,344)                                    |
| Written option contracts expired or closed . . . . . | 100,019,735            | 1,627,383                                      |
| Forward currency exchange contracts . . . . .        | 37,331,612             | 1,392,606                                      |
| Swap contracts . . . . .                             | 13,063,152             | 1,705,784                                      |
| Foreign currency transaction . . . . .               | <u>(229,330)</u>       | <u>(8,336)</u>                                 |
| Net realized gain (loss) . . . . .                   | 40,909,822             | (676,431)                                      |
| Change in unrealized                                 |                        |  |
| appreciation (depreciation) on:                      |                        |  |
| Investments . . . . .                                | 142,408,254            | 8,899,495                                      |
| Securities sold short . . . . .                      | (18,101,985)           | (1,618,851)                                    |
| Written option contracts . . . . .                   | (26,559,867)           | (871,912)                                      |
| Forward currency exchange contracts . . . . .        | (2,432,410)            | (65,851)                                       |
| Swap contracts . . . . .                             | (21,811,584)           | (1,710,890)                                    |
| Foreign currency transaction . . . . .               | <u>(13)</u>            | <u>(1,163)</u>                                 |
| Net change in unrealized appreciation . . . . .      | 73,502,395             | 4,630,828                                      |
| NET REALIZED AND CHANGE IN                           |                        |  |
| UNREALIZED GAIN ON INVESTMENTS . . . . .             | <u>114,412,217</u>     | <u>3,954,397</u>                               |
| NET INCREASE IN NET ASSETS                           |                        |  |
| RESULTING FROM OPERATIONS . . . . .                  | <u>\$ 95,909,214</u>   | <u>\$ 3,440,737</u>                            |

The accompanying notes are an integral part of these financial statements.

# The Merger Fund

## STATEMENTS OF CHANGES IN NET ASSETS

|   | Year Ended<br>December 31, 2016 | Year Ended<br>December 31, 2015 |
|---|---------------------------------|---------------------------------|
| Net investment loss . . . . .   | \$ (18,503,003)                 | \$ (23,529,062)                 |
| Net realized gain on investments,<br>securities sold short, written option contracts<br>expired or closed, forward currency<br>exchange contracts, swap contracts, and<br>foreign currency transaction . . . . .                  | 40,909,822                      | 21,986,369                      |
| Net change in unrealized appreciation<br>(depreciation) on investments, securities sold<br>short, written option contracts, forward<br>currency exchange contracts, swap contracts,<br>and foreign currency transaction . . . . . | <u>73,502,395</u>               | <u>(39,647,988)</u>             |
| Net increase (decrease) in net assets<br>resulting from operations . . . . .  | <u>95,909,214</u>               | <u>(41,190,681)</u>             |
| Investor Class —  |                                 |                                 |
| Distributions to shareholders from: (Note 5)  |                                 |                                 |
| Net investment income . . . . .   | (4,911,192)                     | (28,234,075)                    |
| Net realized gains . . . . .  | <u>—</u>                        | <u>(15,570,634)</u>             |
| Total dividends and distributions —   |                                 |                                 |
| Investor Class . . . . .  | <u>(4,911,192)</u>              | <u>(43,804,709)</u>             |
| Institutional Class —   |                                 |                                 |
| Distributions to shareholders from: (Note 5)  |                                 |                                 |
| Net investment income . . . . .   | (12,300,844)                    | (14,536,377)                    |
| Net realized gains . . . . .  | <u>—</u>                        | <u>(5,504,041)</u>              |
| Total dividends and distributions —   |                                 |                                 |
| Institutional Class . . . . .   | <u>(12,300,844)</u>             | <u>(20,040,418)</u>             |
| Net decrease in net assets from<br>capital share transactions (Note 4) . . . . .  | <u>(1,917,196,942)</u>          | <u>(540,529,909)</u>            |
| Net decrease in net assets . . . . .  | <u>(1,838,499,764)</u>          | <u>(645,565,717)</u>            |
| NET ASSETS:   |                                 |                                 |
| Beginning of year . . . . .   | <u>4,756,006,204</u>            | <u>5,401,571,921</u>            |
| End of year (including accumulated<br>undistributed net investment income (loss) of<br>\$4,961,867 and \$(4,545,160), respectively) . . . .   | <u>\$2,917,506,440</u>          | <u>\$4,756,006,204</u>          |

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**STATEMENTS OF CHANGES IN NET ASSETS**

|   | Year Ended<br>December 31, 2016 | Year Ended<br>December 31, 2015 |
|---|---------------------------------|---------------------------------|
| Net investment income (loss) . . . . .  | \$ (513,660)                    | \$ 34,072                       |
| Net realized loss on investments, securities<br>sold short, written option contracts expired<br>or closed, forward currency exchange<br>contracts, swap contracts, and foreign<br>currency transaction . . . . .                  | (676,431)                       | (1,163,504)                     |
| Net change in unrealized appreciation<br>(depreciation) on investments, securities sold<br>short, written option contracts, forward<br>currency exchange contracts, swap contracts,<br>and foreign currency transaction . . . . . | <u>4,630,828</u>                | <u>(2,046,347)</u>              |
| Net increase (decrease) in net assets<br>resulting from operations . . . . .  | <u>3,440,737</u>                | <u>(3,175,779)</u>              |
| Institutional Class —   |                                 |                                 |
| Distributions to shareholders from: (Note 5)  |                                 |                                 |
| Net investment income . . . . .   | (968,948)                       | (859,690)                       |
| Net realized gains . . . . .  | <u>—</u>                        | <u>(2,073,810)</u>              |
| Total dividends and distributions —   |                                 |                                 |
| Institutional Class . . . . .   | <u>(968,948)</u>                | <u>(2,933,500)</u>              |
| Net increase in net assets from<br>capital share transactions (Note 4) . . . . .  | <u>13,985,677</u>               | <u>90,513,163</u>               |
| Net increase in net assets . . . . .  | 16,457,466                      | 84,403,884                      |
| NET ASSETS:   |                                 |                                 |
| Beginning of year . . . . .   | <u>96,489,239</u>               | <u>12,085,355</u>               |
| End of year (including accumulated<br>undistributed net investment income (loss) of<br>\$121,596 and \$(849,362), respectively) . . . . .   | <u>\$112,946,705</u>            | <u>\$96,489,239</u>             |

The accompanying notes are an integral part of these financial statements.

## The Merger Fund

### FINANCIAL HIGHLIGHTS

Selected per share data is based on a share of beneficial interest outstanding throughout each period.

#### Institutional Class

|   | Year Ended<br>December 31, |                |                | For the Period from<br>August 1, 2013 <sup>^</sup><br>through |
|---|----------------------------|----------------|----------------|---|
|   | <u>2016</u>                | <u>2015</u>    | <u>2014</u>    | <u>December 31, 2013</u>                                      |
| <b>Per Share Data:</b>                    |                            |                |                |   |
| Net asset value,                          |                            |                |                |   |
| beginning of period . . . . .             | <u>\$15.25</u>             | <u>\$15.58</u> | <u>\$15.97</u> | <u>\$16.06</u>  |
| Income from                               |                            |                |                |   |
| investment operations:                    |                            |                |                |   |
| Net investment                            |                            |                |                |   |
| income (loss) <sup>(1)(2)</sup> . . . . . | (0.04)                     | (0.03)         | 0.37           | 0.03  |
| Net realized and unrealized               |                            |                |                |   |
| gain (loss) on investments . . . . .      | <u>0.49</u>                | <u>(0.05)</u>  | <u>(0.10)</u>  | <u>0.31</u>   |
| Total from investment operations . .      | <u>0.45</u>                | <u>(0.08)</u>  | <u>0.27</u>    | <u>0.34</u>   |
| Less distributions:                       |                            |                |                |   |
| From net investment income . . .          | (0.14)                     | (0.18)         | (0.45)         | (0.35)  |
| From net realized gains . . . . .         | <u>—</u>                   | <u>(0.07)</u>  | <u>(0.21)</u>  | <u>(0.08)</u>   |
| Total dividends                           |                            |                |                |   |
| and distributions . . . . .               | <u>(0.14)</u>              | <u>(0.25)</u>  | <u>(0.66)</u>  | <u>(0.43)</u>   |
| Net Asset Value, end of period . . . .    | <u>\$15.56</u>             | <u>\$15.25</u> | <u>\$15.58</u> | <u>\$15.97</u>  |
| Total Return . . . . .                    | 2.94%                      | (0.52)%        | 1.63%          | 2.20% <sup>(3)</sup>  |

The accompanying notes are an integral part of these financial statements.



# The Merger Fund

## FINANCIAL HIGHLIGHTS (continued)

### Institutional Class

|  | Year Ended<br>December 31, |             |             | For the Period from<br>August 1, 2013 <sup>^</sup><br>through |
|--|----------------------------|-------------|-------------|---|
|  | 2016                       | 2015        | 2014        | December 31, 2013   |
| <b>Supplemental data and ratios:</b>   |                            |             |             |   |
| Net assets, end of period (000's) . .  | \$1,377,041                | \$1,247,332 | \$1,332,078 | \$172,247   |
| Ratio of gross expenses<br>to average net assets:  |                            |             |             |   |
| Before expense waiver . . . . .  | 1.70%                      | 1.54%       | 1.44%       | 1.32%(4)  |
| After expense waiver . . . . .   | 1.59%                      | 1.41%       | 1.28%       | 1.19%(4)  |
| Ratio of dividends on short<br>positions and borrowing expense<br>on securities sold short to<br>average net assets . . . . .  | 0.52%                      | 0.40%       | 0.29%       | 0.19%(4)  |
| Ratio of operating expense to<br>average net assets excluding<br>dividends on short positions<br>and borrowing expense on<br>securities sold short<br>(after expense waiver) . . . . . | 1.07%                      | 1.01%       | 0.99%       | 1.00%(4)  |
| Ratio of net investment income<br>(loss) to average net assets:  |                            |             |             |   |
| Before expense waiver . . . . .  | (0.38)%                    | (0.34)%     | 2.14%       | 0.29%(4)  |
| After expense waiver . . . . .   | (0.27)%                    | (0.21)%     | 2.30%       | 0.42%(4)  |
| Portfolio turnover rate <sup>(5)</sup> . . . . .   | 182%                       | 157%        | 137%        | 194%(3)   |

(1) Net investment income before dividends and borrowing expense on securities sold short for the years ended December 31, 2016, 2015, 2014 and the period ended December 31, 2013 was \$0.04, \$0.03, \$0.42 and \$0.04, respectively.

(2) Net investment income (loss) per share has been calculated based on average shares outstanding during the period.

(3) Not annualized.

(4) Annualized

(5) The numerator for the portfolio turnover rate includes the lesser of purchases or sales (excluding short-term investments, short-term options, forward currency contracts, swap contracts and short positions). The denominator includes the average long positions throughout the period.

<sup>^</sup> Commencement of operations.

The accompanying notes are an integral part of these financial statements.

## The Merger Fund

### FINANCIAL HIGHLIGHTS

Selected per share data is based on a share of beneficial interest outstanding throughout each year.

#### Investor Class

|   | Year Ended December 31, |                |                |                |                           |
|---|-------------------------|----------------|----------------|----------------|---------------------------|
|   | <u>2016</u>             | <u>2015</u>    | <u>2014</u>    | <u>2013</u>    | <u>2012</u>               |
| <b>Per Share Data:</b>                    |                         |                |                |                |                           |
| Net asset value,                          |                         |                |                |                |                           |
| beginning of year . . . . .               | <u>\$15.31</u>          | <u>\$15.63</u> | <u>\$16.01</u> | <u>\$15.83</u> | <u>\$15.59</u>            |
| Income from                               |                         |                |                |                |                           |
| investment operations:                    |                         |                |                |                |                           |
| Net investment                            |                         |                |                |                |                           |
| income (loss) <sup>(1)(2)</sup> . . . . . | (0.09)                  | (0.08)         | 0.33           | 0.04           | (0.05)                    |
| Net realized and unrealized               |                         |                |                |                |                           |
| gain (loss) on investments . . . . .      | <u>0.49</u>             | <u>(0.05)</u>  | <u>(0.10)</u>  | <u>0.53</u>    | <u>0.61</u>               |
| Total from                                |                         |                |                |                |                           |
| investment operations . . . . .           | <u>0.40</u>             | <u>(0.13)</u>  | <u>0.23</u>    | <u>0.57</u>    | <u>0.56</u>               |
| Redemption fees . . . . .                 | <u>—</u>                | <u>—</u>       | <u>—</u>       | <u>—</u>       | <u>0.00<sup>(3)</sup></u> |
| Less distributions:                       |                         |                |                |                |                           |
| From net investment income . . . . .      | (0.05)                  | (0.12)         | (0.40)         | (0.31)         | (0.26)                    |
| From net realized gains . . . . .         | <u>—</u>                | <u>(0.07)</u>  | <u>(0.21)</u>  | <u>(0.08)</u>  | <u>(0.06)</u>             |
| Total dividends and distributions . .     | <u>(0.05)</u>           | <u>(0.19)</u>  | <u>(0.61)</u>  | <u>(0.39)</u>  | <u>(0.32)</u>             |
| Net Asset Value, end of year . . . . .    | <u>\$15.66</u>          | <u>\$15.31</u> | <u>\$15.63</u> | <u>\$16.01</u> | <u>\$15.83</u>            |
| Total Return . . . . .                    | 2.61%                   | (0.82)%        | 1.43%          | 3.61%          | 3.61%                     |

The accompanying notes are an integral part of these financial statements.

# The Merger Fund

## FINANCIAL HIGHLIGHTS (continued)

### Investor Class

|   | Year Ended December 31, |         |         |         |         |
|---|-------------------------|---------|---------|---------|---------|
|   | 2016                    | 2015    | 2014    | 2013    | 2012    |
| <b>Supplemental data and ratios:</b>  |                         |         |         |         |         |
| Net assets, end of year (in millions) . . .   | \$1,540                 | \$3,509 | \$4,069 | \$4,843 | \$4,416 |
| Ratio of gross expenses to average net assets:  |                         |         |         |         |         |
| Before expense waiver . . . . .   | 2.03%                   | 1.87%   | 1.68%   | 1.61%   | 1.82%   |
| After expense waiver . . . . .  | 1.92%                   | 1.74%   | 1.52%   | 1.48%   | 1.69%   |
| Ratio of dividends on short positions and borrowing expense on securities sold short to average net assets . . . .  | 0.52%                   | 0.40%   | 0.29%   | 0.22%   | 0.42%   |
| Ratio of operating expense to average net assets excluding dividends on short positions and borrowing expense on securities sold short (after expense waiver) . . . . . | 1.40%                   | 1.34%   | 1.23%   | 1.26%   | 1.27%   |
| Ratio of net investment income (loss) to average net assets:  |                         |         |         |         |         |
| Before expense waiver . . . . .   | (0.71)%                 | (0.66)% | 1.90%   | 0.09%   | (0.47)% |
| After expense waiver . . . . .  | (0.60)%                 | (0.53)% | 2.06%   | 0.22%   | (0.34)% |
| Portfolio turnover rate <sup>(4)</sup> . . . . .  | 182%                    | 157%    | 137%    | 194%    | 240%    |

- (1) Net investment income before dividends and borrowing expense on securities sold short for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 was \$(0.01), \$(0.02), \$0.38, \$0.07, and \$0.01, respectively.
- (2) Net investment income (loss) per share has been calculated based on average shares outstanding during the year.
- (3) Amount less than \$0.005 per share.
- (4) The numerator for the portfolio turnover rate includes the lesser of purchases or sales (excluding short-term investments, short-term options, forward currency contracts, swap contracts and short positions). The denominator includes the average long positions throughout the year.

The accompanying notes are an integral part of these financial statements.

## WCM Alternatives: Event-Driven Fund

### FINANCIAL HIGHLIGHTS

Selected per share data is based on a share of beneficial interest outstanding throughout each period.

#### Institutional Class

|   | Year Ended<br>December 31, |                | For the Period from<br>January 2, 2014 <sup>^</sup><br>through |
|---|----------------------------|----------------|--|
|   | <u>2016</u>                | <u>2015</u>    | <u>December 31, 2014</u>                                       |
| <b>Per Share Data:</b>                    |                            |                |  |
| Net asset value,                          |                            |                |  |
| beginning of period . . . . .             | <u>\$ 9.62</u>             | <u>\$10.14</u> | <u>\$10.00</u>   |
| Income from investment operations:        |                            |                |  |
| Net investment                            |                            |                |  |
| income (loss) <sup>(1)(2)</sup> . . . . . | (0.04)                     | 0.01           | 0.05   |
| Net realized and unrealized               |                            |                |  |
| gain (loss) on investments . . . . .      | <u>0.31</u>                | <u>(0.22)</u>  | <u>0.34</u>  |
| Total from                                |                            |                |  |
| investment operations . . . . .           | <u>0.27</u>                | <u>(0.21)</u>  | <u>0.39</u>  |
| Less distributions:                       |                            |                |  |
| From net investment income . . . . .      | (0.08)                     | (0.09)         | —  |
| From net realized gains . . . . .         | <u>—</u>                   | <u>(0.22)</u>  | <u>(0.25)</u>  |
| Total dividends                           |                            |                |  |
| and distributions . . . . .               | <u>(0.08)</u>              | <u>(0.31)</u>  | <u>(0.25)</u>  |
| Net Asset Value, end of period . . . . .  | <u>\$ 9.81</u>             | <u>\$ 9.62</u> | <u>\$10.14</u>   |
| Total Return . . . . .                    | 2.86%                      | (2.08)%        | 3.87% <sup>(3)</sup>   |

The accompanying notes are an integral part of these financial statements.

**WCM Alternatives: Event-Driven Fund**  
**FINANCIAL HIGHLIGHTS (continued)**

**Institutional Class**

|  | <u>Year Ended<br/>December 31,</u> |             | <u>For the Period from<br/>January 2, 2014<sup>^</sup><br/>through<br/>December 31, 2014</u> |
|--|------------------------------------|-------------|--|
|  | <u>2016</u>                        | <u>2015</u> |  |
| <b>Supplemental data and ratios:</b>   |                                    |             |  |
| Net assets, end of period (000's) . . . .  | \$112,947                          | \$96,489    | \$12,085   |
| Ratio of gross expenses<br>to average net assets:  |                                    |             |  |
| Before expense reimbursement . . .   | 2.37%                              | 2.23%       | 7.95% <sup>(4)</sup>   |
| After expense reimbursement . . .  | 2.36%                              | 2.09%       | 2.39% <sup>(4)</sup>   |
| Ratio of dividends on short positions<br>and borrowing expense on securities<br>sold short to average net assets . . .   | 0.62%                              | 0.35%       | 0.65% <sup>(4)</sup>   |
| Ratio of operating expenses<br>to average net assets excluding<br>dividends on short positions<br>and borrowing expense on<br>securities sold short<br>(after expense reimbursement) . . . . | 1.74%                              | 1.74%       | 1.74% <sup>(4)</sup>   |
| Ratio of net investment income<br>(loss) to average net assets:  |                                    |             |  |
| Before expense reimbursement . . .   | (0.47)%                            | (0.09)%     | (5.04)% <sup>(4)</sup>   |
| After expense reimbursement . . .  | (0.46)%                            | 0.05%       | 0.52% <sup>(4)</sup>   |
| Portfolio turnover rate <sup>(5)</sup> . . . . .   | 217%                               | 199%        | 212% <sup>(3)</sup>  |

(1) Net investment income before dividends and borrowing expense on securities sold short for the years ended December 31, 2016, 2015 and period ended December 31, 2014 was \$0.02, \$0.04 and \$0.12, respectively.

(2) Net investment income (loss) per share has been calculated based on average shares outstanding during the period.

(3) Not annualized.

(4) Annualized.

(5) The numerator for the portfolio turnover rate includes the lesser of purchases or sales (excluding short-term investments, short-term options, forward currency contracts, swap contracts and short positions). The denominator includes the average long positions throughout the period.

<sup>^</sup> Commencement of operations.

The accompanying notes are an integral part of these financial statements.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2016**

**Note 1 — ORGANIZATION**

The Merger Fund ("TMF") is a no-load, open-end, diversified investment company organized as a trust under the laws of the Commonwealth of Massachusetts on April 12, 1982, and registered under the Investment Company Act of 1940, as amended (the "1940 Act"). TMF was formerly known as the Risk Portfolio of The Ayco Fund. In January of 1989, TMF's fundamental investment policies were amended to permit TMF to engage in merger arbitrage. At the same time, Westchester Capital Management, Inc. became TMF's investment adviser, and TMF began to do business as The Merger Fund. In a transaction that closed on December 31, 2010, Westchester Capital Management, Inc. transferred substantially all of its business and assets to Westchester Capital Management, LLC (the "Adviser"), which became TMF's investment adviser. Therefore, the performance information included herein for periods prior to 2011 reflects the performance of Westchester Capital Management, Inc. Roy Behren and Michael Shannon, TMF's current portfolio managers, have served as co-portfolio managers of TMF since January 2007. The Investor Class inception date was January 31, 1989, and the Institutional Class inception date was August 1, 2013. The investment objective of TMF is to seek to achieve capital growth by engaging in merger arbitrage. Merger arbitrage is a highly specialized investment approach generally designed to profit from the successful completion of publicly announced mergers, takeovers, tender offers, leveraged buyouts, spin-offs, liquidations and other corporate reorganizations. At December 31, 2016, 82.7% of the shares outstanding of TMF's Investor Class were owned by 6 omnibus accounts. At December 31, 2016, 82.4% of the shares outstanding of TMF's Institutional Class were owned by 3 omnibus accounts.

Westchester Capital Funds ("WCF") is an open-end series management investment company organized under the laws of the Commonwealth of Massachusetts on March 20, 2013, and registered under the 1940 Act. WCM Alternatives: Event-Driven Fund ("EDF"), a series of WCF, is a no-load, open-end, non-diversified investment company with two classes of shares, Investor Class shares and Institutional Class shares. The Institutional Class inception date was January 2, 2014. Investor Class shares have not yet commenced operations. The investment objective of EDF is to seek to provide attractive risk-adjusted returns with low relative volatility in virtually all market environments. Risk-adjusted return is a concept that considers not only an investment's return, but also the amount of potential risk involved in producing that return. At December 31, 2016, 98.7% of the shares outstanding of EDF were owned by 3 omnibus accounts.

Each class of shares of TMF and EDF (each a "Fund" and together, the "Funds") has different eligibility and minimum investment requirements. The underlying assets attributable to a class of a Fund are charged with

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 1 — ORGANIZATION (continued)**

the expenses attributable to that class of the Fund and with a share of the general expenses of the Fund. Any general expenses of a Fund that are not readily identifiable as belonging to a particular class of the Fund are allocated by or under the direction of the Boards of Trustees of the Funds (the "Board of Trustees" or "Trustees") in such manner as the Trustees determine. Shares of classes may have different voting rights, such as (i) when required by the 1940 Act, or (ii) when the Trustees determine that such a matter affects only the interests of a particular class. Shares have no preemptive or subscription rights. The Institutional Class shares do not have a distribution fee. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments of a Fund are allocated to each class of a Fund based on its relative net assets.

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies followed by the Funds in the preparation of their financial statements. These policies are in conformity with U.S. generally accepted accounting principles ("GAAP"). The Funds are investment companies and, accordingly, follow the investment company accounting and reporting guidance of the Financial Accounting Standards Board Accounting Standards Codification Topic 946 – Investment Companies. The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

*A. Investment Valuation*

The following is a summary of the Funds' pricing procedures. It is intended to be a general discussion and may not necessarily reflect all pricing procedures followed by the Funds.

Equity securities that trade on an exchange will typically be valued based on the last reported sale price. Securities listed on NASDAQ are typically valued using the NASDAQ Official Closing Price. The securities valued using quoted prices in active markets are classified as Level 1 investments. If, on a particular day, an exchange-listed security does not trade, then the mean between the closing bid and asked prices will typically be used to value the security. These securities are classified as Level 2 investments. Fixed income securities having a maturity of greater than 60 days are typically valued based on evaluations provided by a pricing vendor approved by the Board. These are classified as Level 2 investments.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

Exchange-traded options are typically valued at the higher of the intrinsic value of the option (i.e., what a Fund would pay or can receive upon the option being exercised) or the last reported composite sale price when such sale falls between the bid and asked prices. When the last sale of an exchange-traded option is outside the bid and asked prices, the Funds will typically value the option at the higher of the intrinsic value of the option or the mean between the highest end of day option bid price and the lowest end of day option ask price. Options for which there is an active market are classified as Level 1 investments, but options not listed on an exchange are classified as Level 2 investments. Investments in United States government securities (other than short-term securities) are valued at the mean between the 4:00 PM New York time bid and asked prices supplied by a third party vendor. Investments in registered open-end investment companies, including money market funds, are typically valued at their reported NAV per share. Short-term fixed-income securities having a maturity of less than 60 days are valued at market quotations or based on valuations supplied by a third party pricing service. If a reliable price from a third party pricing service is unavailable, amortized cost may be used if it is determined that the instrument's amortized cost value represents approximately the fair value of the security. Forward currency contracts are valued daily at the prevailing forward exchange rate. These securities are generally classified as Level 2. Total return swap prices are determined using the same methods as would be used to price the underlying security. These securities are generally classified as Level 2.

The Funds typically fair value securities and assets for which (a) market quotations are not readily available or (b) market quotations are believed to be unrepresentative of market value. For example, a Fund may fair value a security that primarily trades on an exchange that closes before the NYSE if a significant event occurs after the close of the exchange on which the security primarily trades but before the NYSE closes. Fair valuations are determined in good faith by the Valuation Group (the "Valuation Group"), a committee comprised of persons who are officers of the Fund or representatives of the Adviser, acting pursuant to procedures adopted by the Board. When fair-value pricing is employed, the prices of securities used by the Funds to calculate their NAV may differ from quoted or published prices for the same securities. In addition, due to the subjective nature of fair-value pricing, it is possible that the value determined for a particular asset may be materially different from the value realized upon such asset's sale. These securities are generally classified as Level 2 or 3 depending on the inputs as described below.



**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Funds have performed analyses of all existing investments to determine the significance and character of all inputs to their fair value determination. Various inputs are used in determining the value of the Funds' investments. These inputs are summarized in the three broad levels listed below:

Level 1 — Quoted prices in active markets for identical securities.

Level 2 — Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3 — Significant unobservable inputs are those inputs that reflect the applicable Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

The following tables provide the fair value measurements of applicable Fund assets and liabilities by level within the fair value hierarchy for the Fund as of December 31, 2016. These assets and liabilities are measured on a recurring basis.

| <u>Investments at Fair Value</u>         | <u>Level 1</u>         | <u>Level 2</u>       | <u>Level 3</u>       | <u>Total</u>           |
|--|------------------------|----------------------|----------------------|------------------------|
| <b>The Merger Fund</b>                   |                        |                      |                      |                        |
| <b>Assets</b>                            |                        |                      |                      |                        |
| Common Stocks*                           | \$2,136,874,858        | \$ 56,366,351        | \$185,723,846        | \$2,378,965,055        |
| Closed-End Funds                         | 94,925,089             | —                    | —                    | 94,925,089             |
| Contingent Value Rights                  | —                      | —                    | 930,150              | 930,150                |
| Corporate Bonds                          | —                      | 125,451,405          | —                    | 125,451,405            |
| Purchased Option Contracts               | 3,569,524              | —                    | —                    | 3,569,524              |
| Escrow Notes                             | —                      | —                    | 1,678,598            | 1,678,598              |
| Short-Term Investments                   | 650,324,270            | —                    | —                    | 650,324,270            |
| Forward Currency<br>Exchange Contracts** | —                      | 793,774              | —                    | 793,774                |
| <b>Total</b>                             | <u>\$2,885,693,741</u> | <u>\$182,611,530</u> | <u>\$188,332,594</u> | <u>\$3,256,637,865</u> |
| <b>Liabilities</b>                       |                        |                      |                      |                        |
| Short Common Stock*                      | \$ 427,669,126         | \$ —                 | \$ —                 | \$ 427,669,126         |
| Short Closed-End Funds                   | 42,190,127             | —                    | —                    | 42,190,127             |
| Written Option Contracts                 | 40,422,525             | —                    | —                    | 40,422,525             |
| Swap Contracts**                         | —                      | 9,533,144            | —                    | 9,533,144              |
| <b>Total</b>                             | <u>\$ 510,281,778</u>  | <u>\$ 9,533,144</u>  | <u>\$ —</u>          | <u>\$ 519,814,922</u>  |

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

| <u>Investments at Fair Value</u>           | <u>Level 1</u>      | <u>Level 2</u>      | <u>Level 3</u>     | <u>Total</u>         |
|--|---------------------|---------------------|--------------------|----------------------|
| <b>WCM Alternatives: Event-Driven Fund</b> |                     |                     |                    |                      |
| <b>Assets</b>                              |                     |                     |                    |                      |
| Common Stocks*                             | \$76,042,563        | \$ 3,034,800        | \$4,868,519        | \$ 83,945,882        |
| Closed-End Funds                           | 11,520,258          | —                   | —                  | 11,520,258           |
| Preferred Stocks                           | 998,630             | —                   | —                  | 998,630              |
| Contingent Value Rights                    | —                   | —                   | 2,135              | 2,135                |
| Rights                                     | —                   | 18,750              | —                  | 18,750               |
| Warrants                                   | —                   | 9,906               | —                  | 9,906                |
| Corporate Bonds                            | —                   | 11,376,664          | —                  | 11,376,664           |
| Purchased Option Contracts                 | 163,524             | —                   | —                  | 163,524              |
| Escrow Notes                               | —                   | —                   | 257,440            | 257,440              |
| Forward Currency                           |                     |                     |                    |                      |
| Exchange Contracts**                       | —                   | 58,444              | —                  | 58,444               |
| Swap Contracts**                           | —                   | 185,409             | —                  | 185,409              |
| Total                                      | <u>\$88,724,975</u> | <u>\$14,683,973</u> | <u>\$5,128,094</u> | <u>\$108,537,042</u> |
| <b>Liabilities</b>                         |                     |                     |                    |                      |
| Short Common Stock*                        | \$18,163,387        | \$ —                | \$ —               | \$ 18,163,387        |
| Short Closed-End Funds                     | 1,897,603           | —                   | —                  | 1,897,603            |
| Written Option Contracts                   | 2,222,282           | —                   | —                  | 2,222,282            |
| Swap Contracts**                           | —                   | 1,152,274           | —                  | 1,152,274            |
| Total                                      | <u>\$22,283,272</u> | <u>\$ 1,152,274</u> | <u>\$ —</u>        | <u>\$ 23,435,546</u> |

\* Please refer to the Schedules of Investments to view long/short common stocks segregated by industry type.

\*\* Swap contracts and forward currency exchange contracts are valued at the net unrealized appreciation (depreciation) on the instrument by counterparty.

The Level 2 securities are priced using inputs such as current yields, discount rates, credit quality, yields on comparable securities, trading volume, maturity date, market bid and ask prices, prices on comparable securities and other significant inputs. Level 3 securities are valued by brokers using broker quotes or such other pricing sources or data as are permitted by the Fund's pricing procedures. At December 31, 2016, the value of these securities held by TMF and EDF were \$188,332,594 and \$5,128,094, respectively. The inputs for these securities are not readily available or cannot be reasonably estimated and are generally those inputs as described in Note 2 A. The appropriateness of fair values for these securities is monitored by the Valuation Group on an ongoing basis.

For the year ended December 31, 2016, TMF and EDF transferred \$185,723,846 and \$4,868,519, respectively, from Level 1 investments to Level 3 investments due to Management pursuing appraisal rights resulting from corporate mergers. There were no transfers into or out of Level 2 investments during the year. Transfers are recorded at the end of the reporting period.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**  
**Level 3 Reconciliation Disclosure**

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value.

**The Merger Fund**

| <u>Description</u>                                  | <u>Common<br/>Stock</u> | <u>Contingent<br/>Value Rights</u> | <u>Escrow<br/>Notes</u> | <u>Total<br/>Investment</u> |
|---|-------------------------|------------------------------------|-------------------------|-----------------------------|
| Balance as of December 31, 2015                     | \$ —                    | \$1,144,234                        | \$1,616,428             | \$ 2,760,662                |
| Purchases on Investments                            | —                       | —                                  | —                       | —                           |
| (Sales) of Investments                              | —                       | —                                  | —                       | —                           |
| Transfers Into Level 3                              | 185,723,846             | —                                  | —                       | 185,723,846                 |
| (Transfers Out) of Level 3                          | —                       | —                                  | —                       | —                           |
| Change in Unrealized<br>Appreciation (Depreciation) | —                       | (214,084)                          | 62,170                  | (151,914)                   |
| Balance as of December 31, 2016                     | <u>\$185,723,846</u>    | <u>\$ 930,150</u>                  | <u>\$1,678,598</u>      | <u>\$188,332,594</u>        |

**WCM Alternatives: Event-Driven Fund**

| <u>Description</u>                                  | <u>Common<br/>Stock</u> | <u>Contingent<br/>Value Rights</u> | <u>Escrow<br/>Notes</u> | <u>Total<br/>Investment</u> |
|---|-------------------------|------------------------------------|-------------------------|-----------------------------|
| Balance as of December 31, 2015                     | \$ —                    | \$2,669                            | \$ —                    | \$ 2,669                    |
| Purchases on Investments                            | —                       | —                                  | 294,386                 | 294,386                     |
| (Sales) of Investments                              | —                       | —                                  | —                       | —                           |
| Transfers Into Level 3                              | 4,868,519               | —                                  | —                       | 4,868,519                   |
| (Transfers Out) of Level 3                          | —                       | —                                  | —                       | —                           |
| Change in Unrealized<br>Appreciation (Depreciation) | —                       | (534)                              | (36,946)                | (37,480)                    |
| Balance as of December 31, 2016                     | <u>\$4,868,519</u>      | <u>\$2,135</u>                     | <u>\$257,440</u>        | <u>\$5,128,094</u>          |

The realized and unrealized gains and losses from Level 3 transactions are included with the net realized gain (loss) on investments and net change in unrealized appreciation (depreciation) on investments on the Statements of Operations. The net change in unrealized appreciation (depreciation) on investments related to Level 3 securities held by TMF and EDF at December 31, 2016 totals \$(151,914) and \$(37,480), respectively.

Significant unobservable valuation inputs monitored by the Valuation Group under the supervision of the Board of Trustees for material Level 3 investments as of December 31, 2016 for both TMF and EDF are as follows:

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

**The Merger Fund**

| <u>Description</u> | <u>Fair Value at<br/>December 31,<br/>2016</u> | <u>Valuation<br/>Technique</u> | <u>Unobservable<br/>Input</u>  |
|--------------------|--|--------------------------------|--|
| Common Stock       | \$ 58,539,425                                  | Discounted Cash<br>Flow Model  | Discount Rates<br>Terminal Value   |
| Common Stock       | \$127,184,421                                  | Discounted Cash<br>Flow Model  | Cash Flow Projections<br>Discount Rates<br>Terminal Value<br>Cash Flow Projections |

**WCM Alternatives: Event-Driven Fund**

| <u>Description</u> | <u>Fair Value at<br/>December 31,<br/>2016</u> | <u>Valuation<br/>Technique</u> | <u>Unobservable<br/>Input</u>  |
|--------------------|--|--------------------------------|--|
| Common Stock       | \$ 995,684                                     | Discounted Cash<br>Flow Model  | Discount Rates<br>Terminal Value   |
| Common Stock       | \$3,872,835                                    | Discounted Cash<br>Flow Model  | Cash Flow Projections<br>Discount Rates<br>Terminal Value<br>Cash Flow Projections |

The tables above do not include certain Level 3 investments that are valued by brokers and pricing services. At December 31, 2016, the value of these securities for TMF and EDF were \$2,608,748 and \$259,575, respectively. The inputs for these investments are not readily available or cannot be reasonably estimated and are generally those inputs described in Note 2.

**B. Federal Income Taxes**

No provision for federal income taxes has been made since the Funds have complied to date with the provisions of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and intends to continue to so comply in future years and to distribute investment company net taxable income and net capital gains to shareholders. Additionally, the Funds intend to make all required distributions to avoid federal excise tax.

The Funds have reviewed all open tax years in major jurisdictions and concluded that there is no impact on the Funds' net assets and there is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on a tax return. The Funds are also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months. As of December 31, 2016, TMF's open Federal and New York tax years include the tax years ended December 31, 2013 through December 31, 2016, and EDF's open Federal and New York tax years include the tax years ended December 31, 2014 through December 31, 2016. The Funds have no tax examination in progress.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

*C. Transactions with Brokers*

The Funds' receivables from brokers for proceeds on securities sold short and deposits at brokers for securities sold short are with two securities dealers. The Funds do not require the brokers to maintain collateral in support of the receivables from the brokers for proceeds on securities sold short. The Funds are required by the brokers to maintain collateral for securities sold short. The receivable from brokers on the Statements of Assets and Liabilities represents the proceeds from securities sold short that is maintained at the broker. The Funds may maintain cash deposits at brokers beyond the receivables for short sales. The Funds may be required by the brokers with which it executes short sales to maintain an additional amount of collateral in a special tri-party custody arrangement for the benefit of the broker.

The Funds' equity swap contracts' and forward currency exchange contracts' cash deposits are monitored daily by the Adviser and counterparty. Cash deposits by the Funds are presented as deposits at brokers on the Statements of Assets and Liabilities. These transactions may involve market risk in excess of the amounts receivable or payable reflected on the Statements of Assets and Liabilities.

*D. Securities Sold Short*

The Funds sell securities or currencies short for economic hedging purposes or any other investment purpose. For financial statement purposes, an amount equal to the settlement amount is initially included in the Statements of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently priced to reflect the current value of the short position. Subsequent fluctuations in the market prices of securities or currencies sold, but not yet purchased, may require purchasing the securities or currencies at prices which may differ from the market value reflected on the Statements of Assets and Liabilities. Short sale transactions result in off balance sheet risk because the ultimate obligation may exceed the related amounts shown in the Statements of Assets and Liabilities. The Funds will incur losses if the price of the security increases between the date of the short sale and the date on which the Funds purchase the securities to replace the borrowed securities. The Funds' losses on short sales are potentially unlimited because there is no upward limit on the price a borrowed security could attain.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Funds are liable for any dividends payable on securities while those securities are sold short. Until the security is replaced, the Funds are required to pay to the lender any income earned, which is recorded as an expense by the Funds. The Funds segregate liquid assets in an amount equal to the market value of securities sold short, which is reflected in the Schedules of Investments. These assets are required to be adjusted daily to reflect changes in the value of the securities or currencies sold short.

*E. Written Option Contracts*

The Funds are subject to equity price risk in the normal course of pursuing their investment objectives. The Funds write (sell) put or call options for hedging purposes, volatility management purposes, or otherwise to gain, or reduce, long or short exposure to one or more asset classes or issuers. When a Fund writes (sells) an option, an amount equal to the premium received by the Fund is included in the Statement of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently priced daily to reflect the current value of the option written. Refer to Note 2 A. for a pricing description. By writing an option, a Fund may become obligated during the term of the option to deliver or purchase the securities underlying the option at the exercise price if the option is exercised. These contracts may involve market risk in excess of the amounts receivable or payable reflected on the Statements of Assets and Liabilities. Refer to Note 2 Q. for further derivative disclosures, and Note 2 O. for further counterparty risk disclosure.

When an option expires on its stipulated expiration date or the Funds enter into a closing purchase transaction, the Funds realize gains or losses if the cost of the closing purchase transaction differs from the premium received when the option was sold without regard to any unrealized appreciation or depreciation on the underlying security, and the liability related to such option is eliminated. When a written call option is exercised, the premium originally received decreases the cost basis of the security and the Funds realize gains or losses from the sale of the underlying security. When a written put option is exercised, the cost of the security acquired is decreased by the premium received for the put.

*F. Purchased Option Contracts*

The Funds are subject to equity price risk in the normal course of pursuing their investment objectives. The Funds purchase put or call options for hedging purposes, volatility management purposes, or

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

otherwise to gain, or reduce, long or short exposure to one or more asset classes or issuers. When the Funds purchase an option contract, an amount equal to the premiums paid is included in the Statements of Assets and Liabilities as an investment, and is subsequently priced daily to reflect the value of the purchased option. Refer to Note 2 A. for a pricing description. Refer to Note 2 Q. for further derivative disclosures, and Note 2 O. for further counterparty risk disclosure.

When option contracts expire or are closed, realized gains or losses are recognized without regard to any unrealized appreciation or depreciation on the underlying securities that may be held by the Funds. If the Fund exercises a call option, the cost of the security acquired is increased by the premium paid for the call. If the Fund exercises a put option, the premium paid for the put option increases the cost of the underlying security and a gain or loss is realized from the sale of the underlying security.

*G. Forward Currency Exchange Contracts*

The Funds are subject to foreign currency exchange rate risk in the normal course of pursuing their investment objectives. During the year ended December 31, 2016, the Funds used forward currency exchange contracts to hedge against changes in the value of foreign currencies. The Funds may enter into forward currency exchange contracts obligating the Funds to deliver and receive a currency at a specified future date. Forward contracts are valued daily, and unrealized appreciation or depreciation is recorded daily as the difference between the contract exchange rate and the closing forward rate applied to the face amount of the contract. Refer to Note 2 A. for a pricing description. A realized gain or loss is recorded at the time the forward contract expires. Credit risk may arise as a result of the failure of the counterparty to comply with the terms of the contract. Refer to Note 2 O. for further counterparty risk disclosure.

The use of forward currency exchange contracts does not eliminate fluctuations in the underlying prices of the Funds' investment securities. The use of forward currency exchange contracts involves the risk that anticipated currency movements will not be accurately predicted. A forward currency exchange contract would limit the risk of loss due to a decline in the value of a particular currency; however, it would also limit any potential gain that might result should the value of the currency increase instead of decrease. These contracts may involve market risk in excess of the amounts receivable or payable reflected on the Statements of Assets and Liabilities. Refer to Note 2 Q. for further derivative disclosures.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

*H. Equity Swap Contracts*

The Funds are subject to equity price risk and interest rate risk in the normal course of pursuing their investment objectives. During the year ended December 31, 2016, the Funds entered into both long and short equity swap contracts with multiple broker-dealers. A long equity swap contract entitles the Funds to receive from the counterparty any appreciation and dividends paid on an individual security, while obligating the Funds to pay the counterparty any depreciation on the security as well as interest on the notional amount of the contract at a rate equal to LIBOR plus an agreed upon spread (generally between 25 to 100 basis points). A short equity swap contract obligates the Funds to pay the counterparty any appreciation and dividends paid on an individual security, while entitling the Funds to receive from the counterparty any depreciation on the security, and to pay to or receive from the counterparty interest on the notional value of the contract at a rate equal to LIBOR less an agreed upon spread (generally between 25 to 100 basis points). Refer to Note 2 A. for a pricing description.

The Funds may also enter into equity swap contracts whose value may be determined by the spread between a long equity position and a short equity position. This type of swap contract obligates the Funds to pay the counterparty an amount tied to any increase in the spread between the two securities over the term of the contract. The Funds are also obligated to pay the counterparty any dividends paid on the short equity holding as well as any net financing costs. This type of swap contract entitles the Funds to receive from the counterparty any gains based on a decrease in the spread as well as any dividends paid on the long equity holding and any net interest income.

Fluctuations in the value of an open contract are recorded daily as net unrealized appreciation or depreciation. The Funds will realize gains or losses upon termination or reset of the contract. Either party, under certain conditions, may terminate the contract prior to the contract's expiration date. Equity swap contracts are typically valued based on market quotations or pricing service evaluations for the underlying reference asset. The Valuation Group monitors the credit quality of the Funds' counterparties and may adjust the valuation of a swap in the Valuation Group's discretion due to, among other things, changes in a counterparty's credit quality.

Credit risk may arise as a result of the failure of the counterparty to comply with the terms of the contract. Refer to Note 2 O. for further counterparty risk disclosure. Additionally, risk may arise from unanticipated movements in interest rates or in the value of the underlying securities. These contracts may involve market risk in excess of



**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

the amounts receivable or payable reflected on the Statements of Assets and Liabilities. Refer to Note 2 Q. for further derivative disclosures.

*I. Distributions to Shareholders*

Dividends from net investment income and net realized capital gains, if any, are declared and paid at least annually. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from GAAP. These differences are due primarily to wash sale-loss deferrals, constructive sales, straddle-loss deferrals, adjustments on swap contracts, and unrealized gains or losses on Section 1256 contracts, which were realized, for tax purposes, at the end of each Fund's fiscal year.

*J. Foreign Securities*

Investing in securities of foreign companies and foreign governments involves special risks and considerations not typically associated with investing in U.S. companies and the U.S. government. These risks include fluctuations in currency exchange rates and adverse political, cultural, regulatory, legal, tax, and economic developments as well as different custody and/or settlement practices or delayed settlements in some foreign markets. Moreover, securities of many foreign companies and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. companies and the U.S. government.

*K. Foreign Currency Translations*

The books and records of the Funds are maintained in U.S. dollars. Foreign currency transactions are translated into U.S. dollars on the following basis: (i) market value of investment securities, assets and liabilities at the daily rates of exchange, and (ii) purchases and sales of investment securities, dividend and interest income and certain expenses at the rates of exchange prevailing on the respective dates of such transactions. For financial reporting purposes, the Funds do not isolate changes in the exchange rate of investment securities from the fluctuations arising from changes in the market prices of securities. However, for federal income tax purposes, the Funds do isolate and treat as ordinary income the effect of changes in foreign exchange rates on realized gain or loss from the sale of investment securities and payables and receivables arising from trade-date and settlement-date differences. Foreign currency held as cash by the Funds' custodian is reported separately on the Statements of Assets and Liabilities and on the Statements of Operations.

*L. Cash and Cash Equivalents*

The Funds consider highly liquid short-term fixed income investments purchased with an original maturity of less than three months to be cash

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

equivalents. Cash equivalents are included in short-term investments on the Schedule of Investments as well as in investments on the Statements of Assets and Liabilities. Temporary cash overdrafts are reported as payable to custodian.

*M. Guarantees and Indemnifications*

In the normal course of business, the Funds enter into contracts with service providers that contain general indemnification clauses. The Funds' maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Funds that have not yet occurred. The Funds have not historically incurred material expenses in respect of those provisions.

*N. Security Transactions, Investment Income and Expenses*

Transactions are recorded for financial statement purposes on the trade date. Realized gains and losses from security transactions are recorded on the identified cost basis. Distributions to shareholders are recorded on the ex-dividend date. Dividend income is recorded on the ex-dividend date, except for certain dividends on foreign securities, which are recorded as soon as the Fund is informed after the ex-dividend date. Interest is accounted for on the accrual basis and includes amortization of premiums and discounts on the effective interest method. At December 31, 2016, expenses include \$4,434,815 and \$155,810 of borrowing expenses on securities sold short for TMF and EDF, respectively.

*O. Counterparty Risk*

The Funds help manage counterparty credit risk by entering into agreements only with counterparties the Adviser believes have the financial resources to honor their obligations. The Adviser considers the creditworthiness of each counterparty to a contract in evaluating potential credit risk. The counterparty risk for forward currency exchange contracts to the Funds includes the amount of any net unrealized appreciation on the contract. The counterparty risk for equity swaps contracts to the Funds includes the risk of loss of the full amount of any net unrealized appreciation on the contract, along with dividends receivable on long equity contracts and interest receivable on short equity contracts. Written and purchased options sold on an exchange expose the Funds to counterparty risk; however, they are exchange traded and the exchange's clearinghouse guarantees the options against default. Over-the-counter options counterparty risk includes the risk of loss of the full amount of any net unrealized appreciation.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**

**P. *The Right to Offset***

Financial assets and liabilities, as well as cash collateral received by the Funds' counterparties and posted are offset by the respective counterparty, and the net amount is reported in the Statements of Assets and Liabilities when the Funds believe there exists a legally enforceable right to offset the recognized amounts.

**Q. *Derivatives***

The Funds may utilize derivative instruments such as options, swaps, futures, forward contracts and other instruments with similar characteristics to the extent that they are consistent with the Funds' respective investment objectives and limitations. The use of these instruments may involve additional investment risks, including the possibility of illiquid markets or imperfect correlation between the value of the instruments and the underlying securities. Derivatives also may create leverage which will amplify the effect of their performance on the Funds and may produce significant losses.

The Funds have adopted authoritative standards regarding disclosure about derivatives and hedging activities and how they affect the Funds' Statements of Assets and Liabilities and Statements of Operations. For the year ended December 31, 2016, each Fund's monthly average quantity and notional value are described below:

**The Merger Fund**

|                                     | <u>Monthly Average<br/>Quantity</u> | <u>Monthly Average<br/>Notional Value</u> |
|-------------------------------------|-------------------------------------|---|
| Purchased Option Contracts          | 188,254                             | \$ 31,190,610                             |
| Written Option Contracts            | 219,478                             | \$ 51,439,512                             |
| Forward Currency Exchange Contracts | 5                                   | \$213,419,357                             |
| Long Total Return Swap Contracts    | 11,624,982                          | \$255,017,594                             |
| Short Total Return Swap Contracts   | 1,404,198                           | \$ 37,186,868                             |

**WCM Alternatives: Event-Driven Fund**

|                                     | <u>Monthly Average<br/>Quantity</u> | <u>Monthly Average<br/>Notional Value</u> |
|-------------------------------------|-------------------------------------|---|
| Purchased Option Contracts          | 12,042                              | \$ 1,150,979                              |
| Written Option Contracts            | 12,995                              | \$ 2,769,861                              |
| Forward Currency Exchange Contracts | 7                                   | \$ 9,637,603                              |
| Long Total Return Swap Contracts    | 720,986                             | \$23,585,455                              |
| Short Total Return Swap Contracts   | 80,518                              | \$ 1,977,108                              |

\* Purchased and written options present monthly average premiums and forward currency exchange contracts and total return swaps present monthly average notional value.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**  
**Statements of Assets and Liabilities**

Fair values of derivative instruments as of December 31, 2016:

|  | <b>Asset Derivatives</b>                             |                     |
|--|--|---------------------|
| <u>Derivatives</u>                         | <u>Statements of Assets and Liabilities Location</u> | <u>Fair Value</u>   |
| <b>The Merger Fund</b>                     |  |                     |
| Equity Contracts:                          |  |                     |
| Purchased Option Contracts                 | Investments  | \$ 3,569,524        |
| Foreign Exchange Contracts:                |  |                     |
| Forward Currency Exchange Contracts        | Receivables  | <u>793,774</u>      |
| Total                                      |  | <u>\$ 4,363,298</u> |
| <b>WCM Alternatives: Event-Driven Fund</b> |  |                     |
| Equity Contracts:                          |  |                     |
| Purchased Option Contracts                 | Investments  | \$ 163,524          |
| Swap Contracts                             | Receivables  | 185,409             |
| Foreign Exchange Contracts:                |  |                     |
| Forward Currency Exchange Contracts        | Receivables  | <u>58,444</u>       |
| Total                                      |  | <u>\$ 407,377</u>   |

|  | <b>Liability Derivatives</b>                         |                     |
|--|--|---------------------|
| <u>Derivatives</u>                         | <u>Statements of Assets and Liabilities Location</u> | <u>Fair Value</u>   |
| <b>The Merger Fund</b>                     |  |                     |
| Equity Contracts:                          |  |                     |
| Written Option Contracts                   | Written Option Contracts                             | \$40,422,525        |
| Swap Contracts                             | Payables   | <u>9,533,144</u>    |
| Total                                      |  | <u>\$49,955,669</u> |
| <b>WCM Alternatives: Event-Driven Fund</b> |  |                     |
| Equity Contracts:                          |  |                     |
| Written Option Contracts                   | Written Option Contracts                             | \$ 2,222,282        |
| Swap Contracts                             | Payables   | <u>1,152,274</u>    |
| Total                                      |  | <u>\$ 3,374,556</u> |

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 2 — SIGNIFICANT ACCOUNTING POLICIES (continued)**  
**Statements of Operations**

The effect of derivative instruments on the Statements of Operations for the year ended December 31, 2016:

**Amount of Realized Gain (Loss) on Derivatives**

| <u>Derivatives</u>            | <u>Purchased<br/>Option<br/>Contracts*</u> | <u>Written<br/>Option<br/>Contracts</u> | <u>Forward<br/>Currency<br/>Exchange<br/>Contracts</u> | <u>Swap<br/>Contracts</u> | <u>Total</u>         |
|-------------------------------|--|---|--|---------------------------|----------------------|
| <b>The Merger Fund</b>        |  |   |  |                           |                      |
| Equity Contracts              | \$(53,754,164)                             | \$100,019,735                           | \$ —   | \$ 13,063,152             | \$ 59,328,723        |
| Foreign Exchange<br>Contracts | <u>—</u>                                   | <u>—</u>                                | <u>37,331,612</u>                                      | <u>—</u>                  | <u>37,331,612</u>    |
| Total                         | <u>\$(53,754,164)</u>                      | <u>\$100,019,735</u>                    | <u>\$37,331,612</u>                                    | <u>\$ 13,063,152</u>      | <u>\$ 96,660,335</u> |

**WCM Alternatives:  
Event-Driven Fund**

|                               |                       |                     |                     |                     |                     |
|-------------------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
| Equity Contracts              | \$ (2,718,281)        | \$ 1,627,383        | \$ —                | \$ 1,705,784        | \$ 614,886          |
| Foreign Exchange<br>Contracts | <u>—</u>              | <u>—</u>            | <u>1,392,606</u>    | <u>—</u>            | <u>1,392,606</u>    |
| Total                         | <u>\$ (2,718,281)</u> | <u>\$ 1,627,383</u> | <u>\$ 1,392,606</u> | <u>\$ 1,705,784</u> | <u>\$ 2,007,492</u> |

\* The amounts disclosed are included in the realized gain (loss) on investments.

**Change in Unrealized Appreciation (Depreciation) on Derivatives**

| <u>Derivatives</u>                             | <u>Purchased<br/>Option<br/>Contracts*</u> | <u>Written<br/>Option<br/>Contracts</u> | <u>Forward<br/>Currency<br/>Exchange<br/>Contracts</u> | <u>Swap<br/>Contracts</u> | <u>Total</u>          |
|--|--|---|--|---------------------------|-----------------------|
| <b>The Merger Fund</b>                         |  |   |  |                           |                       |
| Equity Contracts                               | \$ 11,763,866                              | \$ (26,559,867)                         | \$ —   | \$(21,811,584)            | \$(36,607,585)        |
| Foreign Exchange<br>Contracts                  | <u>—</u>                                   | <u>—</u>                                | <u>(2,432,410)</u>                                     | <u>—</u>                  | <u>(2,432,410)</u>    |
| Total  | <u>\$ 11,763,866</u>                       | <u>\$(26,559,867)</u>                   | <u>\$(2,432,410)</u>                                   | <u>\$(21,811,584)</u>     | <u>\$(39,039,995)</u> |
| <b>WCM Alternatives:<br/>Event-Driven Fund</b> |  |   |  |                           |                       |
| Equity Contracts                               | \$ 113,009                                 | \$ (871,912)                            | \$ —   | \$(1,710,890)             | \$(2,469,793)         |
| Foreign Exchange<br>Contracts                  | <u>—</u>                                   | <u>—</u>                                | <u>(65,851)</u>  | <u>—</u>                  | <u>(65,851)</u>       |
| Total  | <u>\$ 113,009</u>                          | <u>\$(871,912)</u>                      | <u>\$(65,851)</u>                                      | <u>\$(1,710,890)</u>      | <u>\$(2,535,644)</u>  |

\* The amounts disclosed are included in the change in unrealized appreciation (depreciation) on investments.

**Note 3 — AGREEMENTS**

The Funds' investment adviser is Westchester Capital Management, LLC pursuant to an investment advisory agreement between TMF and the Adviser dated as of January 1, 2011 (the "TMF Advisory Agreement") and

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 3 — AGREEMENTS (continued)**

pursuant to an investment advisory agreement between WCF, with respect to EDF, and the Adviser dated as of July 30, 2013 (the "EDF Advisory Agreement" and together with the TMF Advisory Agreement, the "Advisory Agreements").

Under the terms of the TMF Advisory Agreement, the Adviser is entitled to receive a fee, calculated daily and payable monthly, at the annual rate of 1.00% of TMF's average daily net assets. The Adviser has agreed until April 30, 2017 to reduce its advisory fee so that the advisory fee will be: (i) 1.0% on an annualized basis of the average daily net assets of TMF on net assets below \$1.5 billion; (ii) 0.9% on an annualized basis of the average daily net assets of TMF on net assets between \$1.5 billion and \$2.0 billion; (iii) 0.8% on an annualized basis of the average daily net assets of TMF on net assets between \$2.0 billion and \$5.0 billion and (iv) 0.75% on an annualized basis of the average daily net assets of TMF on net assets over \$5.0 billion (the "TMF Fee Waiver Agreement"). Investment advisory fees waived by the Adviser on behalf of TMF for the year ended December 31, 2016 were \$4,116,397.

Under the terms of the EDF Advisory Agreement, the Adviser is entitled to receive a fee, calculated daily and payable monthly, at the annual rate of 1.25% of EDF's average daily net assets. The Adviser has contractually agreed until November 12, 2017 to waive its investment advisory fee and to reimburse EDF for other ordinary operating expenses to the extent necessary to limit ordinary operating expenses to an amount not to exceed 1.74% for Institutional Class shares and 1.99% for Investor Class shares (the "EDF Expense Limitation Agreement"). Ordinary operating expenses exclude taxes, commissions, mark-ups, litigation expenses, indemnification expenses, interest expenses, borrowing expenses, including on securities sold short, dividend expenses on securities sold short, trading or investment expenses, acquired fund fees and expenses, and any extraordinary expenses. To the extent that the Adviser waives its investment advisory fee for EDF and/or reimburses EDF for other ordinary operating expenses, it may seek reimbursement of a portion or all of such amounts at any time within three fiscal years after the fiscal year in which such amounts were waived or reimbursed, subject to the expense limitation in place at the time such amounts were waived or reimbursed. For the year ended December 31, 2016, the Adviser reimbursed \$5,319 of advisory fees to EDF.

Investment advisory fees waived and expenses reimbursed on behalf of EDF that are subject to potential recovery by the Adviser are shown in the following table by year of expiration.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 3 — AGREEMENTS (continued)**

| <u>Year of Expiration</u> | <u>Potential Recovery</u> |
|---------------------------|---------------------------|
| 12/31/2017                | \$451,849                 |
| 12/31/2018                | \$ 89,167                 |
| 12/31/2019                | \$ 5,319                  |

Each of the TMF Fee Waiver Agreement and the EDF Expense Limitation Agreement may be terminated at any time by such Fund's Board of Trustees. Certain officers of the Funds are also officers of the Adviser. Each Advisory Agreement was approved for an initial term of two years and thereafter will remain in effect from year to year provided that such continuance is specifically approved at least annually by the vote of a majority of the relevant Fund's Trustees who are not interested persons of the Adviser or such Fund or by a vote of a majority of the outstanding voting securities of such Fund.

U.S. Bancorp Fund Services, LLC, a subsidiary of U.S. Bancorp, a publicly held bank holding company, serves as transfer agent, administrator, accountant, dividend paying agent and shareholder servicing agent for the Funds. U.S. Bank, N.A. serves as custodian for the Funds.

Distribution services are performed pursuant to distribution contracts with broker-dealers and other qualified institutions.

**Note 4 — SHARES OF BENEFICIAL INTEREST**

The Board of Trustees of each Fund has the authority to issue an unlimited amount of shares of beneficial interest without par value.

Changes in shares of beneficial interest were as follows:

| <b>The Merger Fund<br/>Investor Class</b>        | <u>Year Ended<br/>December 31, 2016</u> |                          | <u>Year Ended<br/>December 31, 2015</u> |                         |
|--|---|--------------------------|---|-------------------------|
|  | <u>Shares</u>                           | <u>Amount</u>            | <u>Shares</u>                           | <u>Amount</u>           |
|  | Issued . . . . .                        | 37,333,469               | \$ 573,783,416                          | 74,453,909              |
| Issued as reinvestment<br>of dividends . . . . . | 271,281                                 | 4,253,698                | 2,726,064                               | 41,708,780              |
| Redeemed . . . . .                               | <u>(168,451,278)</u>                    | <u>(2,598,144,269)</u>   | <u>(108,267,683)</u>                    | <u>(1,690,174,354)</u>  |
| Net Increase (Decrease) . . . .                  | <u>(130,846,528)</u>                    | <u>\$(2,020,107,155)</u> | <u>(31,087,710)</u>                     | <u>\$ (482,179,321)</u> |

| <b>Institutional Class</b>                       | <u>Year Ended<br/>December 31, 2016</u> |                       | <u>Year Ended<br/>December 31, 2015</u> |                        |
|--|---|-----------------------|---|------------------------|
|  | <u>Shares</u>                           | <u>Amount</u>         | <u>Shares</u>                           | <u>Amount</u>          |
|  | Issued . . . . .                        | 37,830,299            | \$ 582,506,131                          | 33,945,525             |
| Issued as reinvestment<br>of dividends . . . . . | 366,625                                 | 5,712,011             | 614,723                                 | 9,368,350              |
| Redeemed . . . . .                               | <u>(31,496,025)</u>                     | <u>(485,307,929)</u>  | <u>(38,259,329)</u>                     | <u>(597,180,808)</u>   |
| Net Increase (Decrease) . . . .                  | <u>6,700,899</u>                        | <u>\$ 102,910,213</u> | <u>(3,699,081)</u>                      | <u>\$ (58,350,588)</u> |

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 4 — SHARES OF BENEFICIAL INTEREST (continued)**

| WCM Alternatives:<br>Event-Driven Fund<br>Institutional Class | Year Ended<br>December 31, 2016 |                      | Year Ended<br>December 31, 2015 |                      |
|---|---------------------------------|----------------------|---------------------------------|----------------------|
|   | Shares                          | Amount               | Shares                          | Amount               |
| Issued .....  | 3,982,395                       | \$ 38,316,375        | 10,713,173                      | \$109,252,172        |
| Issued as reinvestment<br>of dividends .....                  | 98,571                          | 968,948              | 305,573                         | 2,933,500            |
| Redeemed .....  | (2,601,444)                     | (25,299,646)         | (2,182,487)                     | (21,672,509)         |
| Net Increase (Decrease) .....                                 | <u>1,479,522</u>                | <u>\$ 13,985,677</u> | <u>8,836,259</u>                | <u>\$ 90,513,163</u> |

**Note 5 — INVESTMENT TRANSACTIONS AND INCOME TAX INFORMATION**

TMF's purchases and sales of securities for the year ended December 31, 2016 (excluding short-term investments, short-term options, forward currency contracts, swap contracts and short positions) in the aggregate were \$5,324,022,743 and \$5,863,625,575, respectively. EDF's purchases and sales of securities for the year ended December 31, 2016 (excluding short-term investments, short-term options, forward currency contracts, swap contracts and short positions) in the aggregate were \$254,425,872 and \$216,328,418, respectively. There were no purchases or sales of U.S. Government securities for the Funds.

At December 31, 2016, the components of accumulated earnings (losses) on a tax basis were as follows:

|                                      | The Merger Fund  | WCM Alternatives:<br>Event-Driven Fund |
|--------------------------------------|------------------|--|
| Cost of investments*                 | \$3,188,975,665  | \$ 103,790,801                         |
| Gross unrealized appreciation        | 171,732,645      | 6,884,384                              |
| Gross unrealized depreciation        | (104,864,219)    | (2,381,996)                            |
| Net unrealized appreciation          | \$ 66,868,426    | \$ 4,502,388                           |
| Undistributed ordinary income        | —                | —                                      |
| Undistributed long-term capital gain | —                | —                                      |
| Total distributable earnings         | \$ —             | \$ —                                   |
| Other accumulated losses             | (203,488,360)    | (7,629,213)                            |
| Total accumulated losses             | \$ (136,619,934) | \$ (3,126,825)                         |

\* Represents cost for federal income tax purposes and differs from the cost for financial reporting purposes due to wash sales and constructive sales.

GAAP requires that certain components of net assets relating to permanent differences be reclassified between financial and tax reporting. Permanent differences are primarily related to foreign currency transactions and swap treatment. These reclassifications have no effect on net assets or



**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 5 — INVESTMENT TRANSACTIONS AND INCOME TAX INFORMATION (continued)**

net asset value per share. For the year ended December 31, 2016, the following table shows the reclassifications made:

|                   | <u>Accumulated Undistributed Net Investment Income</u> | <u>Accumulated Net Realized Loss on Investment, Securities Sold Short, Written Option Contracts Expired or Closed, Forward Currency Exchange Contracts, Swap Contracts and Foreign Currency Translation</u> | <u>Paid-in Capital</u> |
|-------------------|--|---|------------------------|
| The Merger Fund   | \$45,222,066   | \$(41,642,025)  | \$(3,580,041)          |
| WCM Alternatives: |  |   |                        |
| Event Driven Fund | \$ 2,453,566   | \$ (1,827,084)  | \$ (626,482)           |

The tax components of dividends paid during the year ended December 31, 2016 and the year ended December 31, 2015 were as follows:

|                            | <u>The Merger Fund</u> |                     | <u>WCM Alternatives:<br/>Event-Driven Fund</u> |                    |
|----------------------------|------------------------|---------------------|--|--------------------|
|                            | <u>2016</u>            | <u>2015</u>         | <u>2016</u>                                    | <u>2015</u>        |
| <b>Investor Class</b>      |                        |                     |  |                    |
| Ordinary Income            | \$ 4,911,192           | \$43,804,709        | N/A  | N/A                |
| Long-Term Capital Gains    | —                      | —                   | N/A  | N/A                |
| Total Distributions Paid   | <u>\$ 4,911,192</u>    | <u>\$43,804,709</u> | <u>N/A</u>                                     | <u>N/A</u>         |
|                            | <u>2016</u>            | <u>2015</u>         | <u>2016</u>                                    | <u>2015</u>        |
| <b>Institutional Class</b> |                        |                     |  |                    |
| Ordinary Income            | \$12,300,844           | \$20,040,418        | \$968,948                                      | \$2,933,500        |
| Long-Term Capital Gains    | —                      | —                   | —  | —                  |
| Total Distributions Paid   | <u>\$12,300,844</u>    | <u>\$20,040,418</u> | <u>\$968,948</u>                               | <u>\$2,933,500</u> |

TMF designated as long-term capital gain dividend, pursuant to Internal Revenue Case Section 852(b)(3), the amount necessary to reduce the earnings and profits of the Fund related to net capital gain to zero for the tax year ended December 31, 2016.

As of December 31, 2016, TMF and EDF did not have any post-October ordinary losses deferred, on a tax basis. As of December 31, 2016, TMF and EDF had post-October ordinary losses of \$3,777,502 and \$746,672, respectively. As of December 31, 2016, TMF had no short term and \$148,357,995 of long term capital loss carryover. As of December 31, 2016, EDF had \$1,425,366 of short term and \$1,830,739 of long term capital loss carryover.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 6 — WRITTEN OPTION CONTRACTS**

The premium amount and the number of written option contracts during the year ended December 31, 2016 were as follows:

|  | <u>The Merger Fund</u>         |                           | <u>WCM Alternatives:<br/>Event-Driven Fund</u> |                           |
|--|--------------------------------|---------------------------|--|---------------------------|
|  | <u>Number of<br/>Contracts</u> | <u>Premium<br/>Amount</u> | <u>Number of<br/>Contracts</u>                 | <u>Premium<br/>Amount</u> |
| Options outstanding at December 31, 2015 | 490,028                        | \$ 102,853,660            | 10,939   | \$ 2,525,448              |
| Options written                          | 1,218,399                      | 269,371,153               | 74,351   | 15,415,040                |
| Options closed                           | (932,601)                      | (214,416,918)             | (53,538)                                       | (11,211,224)              |
| Options exercised                        | (331,922)                      | (77,528,113)              | (14,878)                                       | (3,335,093)               |
| Options expired                          | (294,041)                      | (41,515,343)              | (8,568)  | (1,349,766)               |
| Options outstanding at December 31, 2016 | <u>149,863</u>                 | <u>\$ 38,764,439</u>      | <u>8,306</u>                                   | <u>\$ 2,044,405</u>       |

**Note 7 — DISTRIBUTION PLAN**

TMF has adopted an Amended and Restated Plan of Distribution (the "TMF Plan") dated July 30, 2013, pursuant to Rule 12b-1 under the 1940 Act that applies to TMF's Investor Class shares. EDF has adopted a Plan of Distribution (the "EDF Plan" and together with the TMF Plan, the "Plans") dated July 30, 2013, pursuant to Rule 12b-1 under the 1940 Act that applies to EDF's Investor Class shares. Under each Plan, the respective Fund will compensate broker dealers or other qualified institutions with whom the Fund has entered into a contract to distribute the Fund's Investor Class shares. Under each Plan, the amount of such compensation paid in any one year shall not exceed 0.25% annually of the average daily net assets attributable to the respective Fund's Investor Class shares, which may be payable as a distribution fee or a service fee for providing permitted recordkeeping, subaccounting, subtransfer agency and/or shareholder liaison services. For the year ended December 31, 2016, TMF incurred \$6,226,510 pursuant to the TMF Plan in respect of TMF's Investor Class shares. As of December 31, 2016, EDF had no outstanding Investor Class shares. Each Plan will remain in effect from year to year provided such continuance is approved at least annually by a vote either of a majority of the relevant Fund's Trustees, including a majority of the non-interested Trustees, or a majority of the relevant Fund's outstanding Investor Class shares.

**Note 8 — OFFSETTING ASSETS AND LIABILITIES**

Each Fund is subject to various Master Netting Arrangements, which govern the terms of certain transactions with select counterparties. The Master Netting Arrangements allow each Fund to close out and net its total exposure to a counterparty in the event of a default with respect to all the transactions governed under a single agreement with a

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 8 — OFFSETTING ASSETS AND LIABILITIES (continued)**

counterparty. The Master Netting Arrangements also specify collateral posting arrangements at pre-arranged exposure levels. Under the Master Netting Arrangements, collateral is routinely transferred if the total net exposure to certain transactions (net of existing collateral already in place) governed under the relevant Master Netting Arrangement with a counterparty in a given account exceeds a specified threshold depending on the counterparty and the type of Master Netting Arrangement.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 8 — OFFSETTING ASSETS AND LIABILITIES (continued)**

The Merger Fund

| Description         | Gross                                    | Gross   | Net  | Gross Amounts not                                 |                              | Net              |
|---------------------|--|---|--|---|------------------------------|------------------|
|                     | Amounts of Recognized Assets/Liabilities | Amounts Offset in the Statement of Assets and Liabilities | Amounts Presented in the Statement of Assets and Liabilities | offset in the Statement of Assets and Liabilities |                              |                  |
|                     |  |   |  | Financial Instruments                             | Collateral Received/Pledged* | Amount           |
| <b>Assets:</b>      |  |   |  |   |                              |                  |
| <b>Description</b>  |  |   |  |   |                              |                  |
| Forward             |  |   |  |   |                              |                  |
| Currency            |  |   |  |   |                              |                  |
| Exchange            |  |   |  |   |                              |                  |
| Contracts**         | \$ 846,812                               | \$ 53,038   | \$793,774  | \$ —  | \$ —                         | \$793,774        |
| Swap                |  |   |  |   |                              |                  |
| Contracts —         |  |   |  |   |                              |                  |
| Bank of America     |  |   |  |   |                              |                  |
| Merrill Lynch       |  |   |  |   |                              |                  |
| & Co., Inc.         | 4,050,011                                | 4,050,011   | —  | —   | —                            | —                |
|                     | <u>\$4,896,823</u>                       | <u>\$4,103,049</u>  | <u>\$793,774</u>   | <u>\$ —</u>                                       | <u>\$ —</u>                  | <u>\$793,774</u> |
| <b>Liabilities:</b> |  |   |  |   |                              |                  |
| <b>Description</b>  |  |   |  |   |                              |                  |
| Written             |  |   |  |   |                              |                  |
| Option              |  |   |  |   |                              |                  |
| Contracts**         | \$40,422,525                             | \$ —  | \$40,422,525   | \$ —  | \$40,422,525                 | \$ —             |
| Forward             |  |   |  |   |                              |                  |
| Currency            |  |   |  |   |                              |                  |
| Exchange            |  |   |  |   |                              |                  |
| Contracts**         | 53,038                                   | 53,038  | —  | —   | —                            | —                |
| Swap                |  |   |  |   |                              |                  |
| Contracts —         |  |   |  |   |                              |                  |
| Bank of America     |  |   |  |   |                              |                  |
| Merrill Lynch       |  |   |  |   |                              |                  |
| & Co., Inc.         | 13,416,962                               | 4,050,011   | 9,366,951  | —   | 9,366,951                    | —                |
| Swap                |  |   |  |   |                              |                  |
| Contracts —         |  |   |  |   |                              |                  |
| JPMorgan            |  |   |  |   |                              |                  |
| Chase &             |  |   |  |   |                              |                  |
| Co., Inc.           | 166,193                                  | —   | 166,193  | —   | 166,193                      | —                |
|                     | <u>\$54,058,718</u>                      | <u>\$4,103,049</u>  | <u>\$49,955,669</u>  | <u>\$ —</u>                                       | <u>\$49,955,669</u>          | <u>\$ —</u>      |

\* In some instances, the actual collateral received/pledged may be more than amount shown.

\*\* JPMorgan Chase & Co., Inc. is the counterparty for all open forward currency exchange contracts and prime broker for all written option contracts held by the Funds as of December 31, 2016.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 8 — OFFSETTING ASSETS AND LIABILITIES (continued)**

**WCM Alternatives: Event-Driven Fund**

| Assets:<br>Description   | Gross<br>Amounts of<br>Recognized<br>Assets/<br>Liabilities | Gross<br>Amounts<br>Offset<br>in the<br>Statement<br>of Assets<br>and<br>Liabilities | Net<br>Amounts<br>Presented<br>in the<br>Statement<br>of Assets<br>and<br>Liabilities | Gross Amounts not<br>offset in the Statement<br>of Assets and Liabilities |                                     | Net<br>Amount    |
|--|---|--|---|---|-------------------------------------|------------------|
|  |   |  |   | Financial<br>Instruments  | Collateral<br>Received/<br>Pledged* |                  |
| Forward<br>Currency<br>Exchange<br>Contracts**                         | \$64,327  | \$ 5,883   | \$ 58,444   | \$ —  | \$ —                                | \$ 58,444        |
| Swap<br>Contracts —<br>Bank of America<br>Merrill Lynch<br>& Co., Inc. | 111,219   | 111,219  | —   | —   | —                                   | —                |
| Swap<br>Contracts —<br>JPMorgan<br>Chase &<br>Co., Inc.                | 207,540   | 22,131   | 185,409   | —   | —                                   | 185,409          |
|  | <u>\$383,086</u>  | <u>\$139,233</u>   | <u>\$ 243,853</u>   | <u>\$ —</u>   | <u>\$ —</u>                         | <u>\$243,853</u> |
| <b>Liabilities:</b><br>Description                                     |   |  |   |   |                                     |                  |
| Written<br>Option<br>Contracts**                                       | \$2,222,282   | \$ —   | \$2,222,282   | \$ —  | \$2,222,282                         | —                |
| Forward<br>Currency<br>Exchange<br>Contracts**                         | 5,883   | 5,883  | —   | —   | —                                   | —                |
| Swap<br>Contracts —<br>Bank of America<br>Merrill Lynch<br>& Co., Inc. | 1,263,493   | 111,219  | 1,152,274   | —   | 1,152,274                           | —                |
| Swap<br>Contracts —<br>JPMorgan<br>Chase &<br>Co., Inc.                | 22,131  | 22,131   | —   | —   | —                                   | —                |
|  | <u>\$3,513,789</u>  | <u>\$139,233</u>   | <u>\$3,374,556</u>  | <u>\$ —</u>   | <u>\$3,374,556</u>                  | <u>\$ —</u>      |

\* In some instances, the actual collateral received/pledged may be more than amount shown.

\*\* JPMorgan Chase & Co., Inc. is the counterparty for all open forward currency exchange contracts and prime broker for all written option contracts held by the Funds as of December 31, 2016.

**The Merger Fund and WCM Alternatives: Event-Driven Fund**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**December 31, 2016**

**Note 9 — SUBSEQUENT EVENTS**

Management has evaluated events and transactions occurring after December 31, 2016 through the date that the financial statements were issued, and has determined that no additional disclosure in the financial statements is required.

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of

The Merger Fund and WCM Alternatives: Event-Driven Fund:

In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, of options written, of forward currency exchange contracts, and of swap contracts and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The Merger Fund and WCM Alternatives: Event-Driven Fund (hereafter referred to as the "Funds") as of December 31, 2016, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, New York

February 24, 2017

## BOARD APPROVAL OF INVESTMENT ADVISORY AGREEMENT (Unaudited)

Each year, the Board of Trustees of each of The Merger Fund, The Merger Fund VL, and WCM Alternatives: Event-Driven Fund (together, the “Board”), including a majority of the Trustees who are not interested persons of The Merger Fund, The Merger Fund VL, and WCM Alternatives: Event-Driven Fund (together, the “Independent Trustees”), is required to determine whether to continue the advisory agreements for each of The Merger Fund, The Merger Fund VL, and WCM Alternatives: Event-Driven Fund, respectively. In October 2016, the Board and the Independent Trustees approved the continuation of The Merger Fund’s, The Merger Fund VL’s, and WCM Alternatives: Event-Driven Fund’s (each, a “Fund” and, together, the “Funds”) advisory arrangements with Westchester Capital Management LLC (the “Adviser”) (collectively, the “Agreements”) for an additional one-year period. A summary of the material factors and conclusions that formed the basis for the approval by the Board and the Independent Trustees are discussed below.

### **Review Process**

The Investment Company Act of 1940, as amended, requires that the Board request and evaluate, and that the Adviser furnish, such information as may reasonably be necessary to evaluate the terms of the Agreements. The Independent Trustees began their formal review process in the summer of 2016 by compiling a request for information that sought a wide range of information the Independent Trustees believed might be necessary to evaluate the terms of the Funds’ Agreements. The Independent Trustees were assisted in compiling that information request by counsel to the Independent Trustees.

Following receipt of the Adviser’s response to the information request, the Independent Trustees evaluated all of the information available to them on a Fund-by-Fund basis, and their deliberations were made separately in respect of each Fund. Throughout the review process, the Independent Trustees were advised by their counsel. The Independent Trustees also discussed their obligations with respect to the continuation of the Agreements in a private session with their counsel. The Independent Trustees and Board, in determining to approve the continuation of the Agreements did not identify any particular information that was all-important or controlling, and each Trustee attributed different weights to the various factors. The following summary describes the most important, but not all, of the factors considered by the Board and the Independent Trustees.

### **Materials Reviewed**

During the course of each year, the Board receives a wide variety of materials relating to the services provided by the Adviser and the Funds’



## BOARD APPROVAL OF INVESTMENT ADVISORY AGREEMENT (continued) (Unaudited)

other service providers, including reports on: each Fund's investment results; portfolio construction; portfolio composition; portfolio trading practices; and other information relating to the nature, extent and quality of services provided by the Adviser to the Funds. In addition, in connection with its annual consideration of the Agreements, the Board requested and reviewed supplementary information regarding the terms of the Agreements, the Funds' investment results, advisory fee and total expense comparisons, financial and profitability information regarding the Adviser and its affiliates, descriptions of various functions undertaken by the Adviser, such as compliance monitoring, information about the personnel providing investment management services to the Funds, and information regarding the terms of the Adviser's other advisory relationships.

The Board also requested and evaluated performance and expense information for other investment companies that were compiled and presented by Morningstar. During the review process, the Board held a telephonic meeting with representatives of Morningstar in which the Board received information regarding the methodology used in compiling Morningstar's report and the process for how each Fund's peer group was determined. The Board and the Independent Trustees also considered information regarding so-called "fall-out" benefits to the Adviser and its affiliates due to the Adviser's relationships with the Funds. After consideration of all of the information presented to them, the Board concluded that they had received all of the information they believed was reasonably necessary to assess the terms of each Agreement and determine whether to renew each Agreement.

### **Nature, Extent and Quality of Services**

***Nature and Extent of Services*** – In considering whether to continue the Agreements for an additional year, the Board and the Independent Trustees evaluated the nature and extent of the services provided by the Adviser. The Board and the Independent Trustees considered information concerning the investment philosophy and investment process used by the Adviser in managing the Funds. In this context, the Board and the Independent Trustees considered the in-house research capabilities of the Adviser as well as other resources available to the Adviser, including research services available to the Adviser as a result of securities transactions effected for the Funds and other investment advisory clients of the Adviser. The Trustees considered the scope and quality of services provided by the Adviser under the Agreements, and noted that the scope of work required of the Adviser to perform the contracted-for services had expanded over time as a result of regulatory and other developments. In this respect, the Board also considered the oversight functions performed

**BOARD APPROVAL OF INVESTMENT ADVISORY AGREEMENT  
(continued) (Unaudited)**

by officers of the Funds who were supplied by and employees of the Adviser and compensated by the Adviser. The Board and the Independent Trustees also considered the managerial and financial resources available to the Adviser.

**Quality of Services** – The Board and the Independent Trustees considered the quality of the services provided by the Adviser and the quality of the resources of the Adviser available to the Funds. The Board and the Independent Trustees considered the specialized experience, expertise and professional qualifications of the personnel of the Adviser, including that the Adviser was among a limited number of investment advisers with a long track record managing merger arbitrage and event-driven strategies within the context of a registered mutual fund. The Board and the Independent Trustees considered the complexity of managing the Funds’ strategies relative to other types of funds. The Board and the Independent Trustees also received and reviewed information regarding the non-portfolio management services provided to the Funds by the Adviser in support of the Funds’ operations. The Trustees also considered the personnel that had been retained by the Adviser over recent years to maintain and potentially improve the level of services provided to the Funds.

In their evaluation of the quality of the services provided by the Adviser, the Board and the Independent Trustees considered the performance of the Funds. The Board and the Independent Trustees considered whether the Funds operated within their investment objectives and their record of compliance with their investment restrictions. The Board and the Independent Trustees reviewed information comparing the Funds’ historical performance to relevant market indices and to performance information for other investment companies with similar investment strategies over the one-, three-, five- and ten-year periods (where applicable) ended June 30, 2016. The Board considered that The Merger Fund VL ranked in the second or first quartile among its limited number of peers for the three-, five-, and ten-year periods ended June 30, 2016, while performing in the third quartile of its limited peer group for the one-year period ended June 30, 2016. The Board also considered that while The Merger Fund ranked in the third or fourth quartile of its peer group in Morningstar’s report for each of the one-, three-, and ten-year periods ended June 30, 2016, it ranked in the second quartile for the five-year period ended June 30, 2016, and the Adviser had provided information evidencing that Fund’s outperformance of the S&P Merger Arbitrage Index over the one-, three, five, and ten-year periods ending August 31, 2016. The Board also considered that WCM Alternatives: Event-Driven Fund ranked in the second quartile of its

**BOARD APPROVAL OF INVESTMENT ADVISORY AGREEMENT  
(continued) (Unaudited)**

Morningstar peer group for the one-year period ended June 30, 2016 and at the median of its peers. In all of their evaluations of relative performance, the Trustees noted that Morningstar's report included a relatively small number of peer funds for comparison, especially over longer-term periods, due to the limited number of registered mutual funds pursuing merger-arbitrage and/or event-driven investment strategies. At the request of the Independent Trustees, Morningstar also provided for the Board's October 2016 meeting, updated performance information for the Funds through September 30, 2016, which the Trustees also reviewed and considered. In their evaluation of each Fund's performance, including each Fund's relatively lower levels of absolute performance over recent periods, the Trustees also considered, among other things, information the Adviser had provided regarding the market conditions affecting merger-arbitrage strategies generally; the prevailing low interest rate environment generally and the Funds' historical relationship to interest rates; and that the Adviser had continued to deliver low volatility returns, with relatively low levels of correlation to the equity markets. The Board and the Independent Trustees concluded, within the context of their overall conclusions regarding each of the Agreements, that they were satisfied with the nature, extent and quality of the services provided by the Adviser and that each Fund's performance record supported the renewal of the Agreements.

**Management Fees and Expenses**

The Board and the Independent Trustees reviewed information, including comparative information provided by Morningstar, regarding the advisory fees paid to the Adviser and the total expenses borne by the Funds. They considered the Funds' advisory fees relative to their peer groups. In this regard, the Independent Trustees noted that each Fund's net advisory fees and net operating expenses, after taking into account any expense limitation arrangements or advisory fee waivers, remained competitive with its peers. The Independent Trustees noted The Merger Fund's net advisory fees and net operating expenses (Investor Class) were below the median of its peer group, that The Merger Fund VL's and WCM Alternatives: Event-Driven Fund's net advisory fees were at or near their respective peer group medians and that The Merger Fund VL's net operating expenses were below its peer group median. The Trustees noted that WCM Alternatives: Event-Driven Fund's net operating expenses were above the median of its peer group, though in line with a number of its peers.

The Board and the Independent Trustees also considered the fees that the Adviser and its affiliates charge other clients with investment strategies similar to the Funds, including where an account is subject to a

## BOARD APPROVAL OF INVESTMENT ADVISORY AGREEMENT (continued) (Unaudited)

performance-based fee. The Board and the Independent Trustees considered information provided by the Adviser describing the differences in services provided to these other clients. In this regard, the Adviser noted that the services provided to these other clients typically consist nearly exclusively or primarily of portfolio management services. The Adviser described the additional level of services provided to the Funds under the terms of the Funds' advisory arrangements or otherwise, such as supplying Fund management, general coordination of the Funds' other service providers, the provision of middle and back office support functions, provision of certain compliance and regulatory functions, and quarterly preparation and attendance of meetings with the Board, as well as the greater financial obligations and entrepreneurial risks the Adviser undertakes in respect of sponsoring a registered investment company. The Board and the Independent Trustees concluded, within the context of their overall conclusions regarding each of the Agreements, that the fees charged under the Agreements represent reasonable compensation to the Adviser in light of the services provided.

### **Profitability and Possible Economies of Scale**

**Profitability** – The Board and the Independent Trustees reviewed information regarding the cost of services provided by the Adviser and the profitability (before distribution expenses and taxes) of the Adviser's relationship with each Fund. The Board noted that, in reporting on its profitability, the Adviser had included an estimated expense for compensation of the Funds' portfolio managers because the Funds' portfolio managers are principal owners of the Adviser and do not receive a salary or bonus. The Board noted that the Adviser would have incurred significant compensation expense if it instead had to hire equivalently qualified portfolio managers to perform the services performed by the owners, which costs would significantly reduce the Adviser's profitability. In evaluating the Adviser's reported profitability, the Independent Trustees considered that certain of the information provided by the Adviser was necessarily estimated and that preparing the related profitability information involved certain assumptions and allocations that were imprecise. The Board and the Independent Trustees recognized that the probative value of profitability information may be limited because a wide range of comparative information for peer advisers often is not generally available and it can be affected by numerous factors, including the structure of the particular adviser, the types of funds it manages, its business mix, the efficiency of an adviser's operations, numerous assumptions about allocations and the adviser's cost of capital. The Independent Trustees concluded that the Adviser's profitability with

## BOARD APPROVAL OF INVESTMENT ADVISORY AGREEMENT (continued) (Unaudited)

respect to The Merger Fund may be relatively high in comparison to other mutual funds, but they noted that the Adviser was among a limited number of investment advisers with an extensive history of providing competitive merger-arbitrage portfolio management services within a registered investment company vehicle and that the Fund's net advisory fees and net operating expenses remained below its limited number of close peers.

In addition, the Board and the Independent Trustees considered information regarding the direct and indirect benefits the Adviser receives as a result of its relationship with the Funds, including research purchased with soft dollar credits earned from portfolio transactions effected on behalf of the Funds (soft dollar arrangements) and reputational benefits.

**Economies of Scale** – The Board and the Independent Trustees reviewed the extent to which the Adviser may realize economies of scale in managing the Funds. The Board and the Independent Trustees concluded within the context of their overall conclusions regarding each of the Agreements that the Adviser's level of profitability from its relationship with each Fund was not excessive in light of, among other things, the Funds' competitive advisory fees and expense ratios. The Trustees also considered that the Adviser proposed to continue to apply waivers to The Merger Fund's advisory fee that generally had the effect of breakpoints in the Adviser's advisory fee and to continue the expense limitation agreements applicable to The Merger Fund VL and WCM Alternatives: Event-Driven Fund, in each case for an additional one-year period. The Independent Trustees concluded that those measures were reasonably designed to result in the sharing of economies of scale realized by the Adviser, if any, with the Funds and their shareholders.

### **Conclusions**

Based on their review, including their consideration of each of the factors referred to above, the Board and the Independent Trustees concluded that the terms of the Agreements, including the fees payable to the Adviser, are fair and reasonable to the Funds and their shareholders given the scope and quality of the services provided to the Funds and such other considerations as the Independent Trustees considered relevant in the exercise of their reasonable business judgment and that the continuation of the Agreements was in the best interests of the Funds and their shareholders. Accordingly, the Board and Independent Trustees unanimously approved the continuation of the Agreements.

## INFORMATION ABOUT TRUSTEES AND OFFICERS

The business and affairs of the Funds are managed under the direction of the Funds' Board of Trustees. Information pertaining to the Funds' Trustees and Officers is set forth below. The Statement of Additional Information includes additional information about the Fund's Trustees and Officers and is available, without charge, upon request by calling 1-800-343-8959.

| <u>Name,<br/>Address and<br/>Year of Birth</u>   | <u>Position(s)<br/>Held with<br/>the Fund</u> | <u>Term of<br/>Office<br/>and<br/>Length<br/>of Time<br/>Served</u>  | <u>Principal<br/>Occupation(s)<br/>During the<br/>Past Five Years</u>  | <u># of<br/>Portfolios<br/>in Fund<br/>Complex<br/>Overseen<br/>by<br/>Trustee**</u> | <u>Other<br/>Directorships<br/>Held by<br/>Trustee<br/>During<br/>the Past<br/>Five Years</u> |
|--|---|--|--|--|---|
| <b>Interested Trustees</b>   |   |  |  |  |   |
| Roy D. Behren*<br>Westchester Capital<br>Management, LLC<br>100 Summit Lake Drive<br>Valhalla, NY 10595<br>Year of Birth: 1960         | Co-President,<br>Treasurer and<br>Trustee     | Indefinite;<br>and since 2011<br>for TMF<br>and<br>since<br>inception<br>for EDF   | Co-Portfolio Manager<br>and Co-President<br>of Westchester Capital<br>Management, LLC,<br>the Fund's Adviser,<br>since 2011.   | 3  | None  |
| Michael T. Shannon*<br>Westchester Capital<br>Management, LLC<br>100 Summit Lake Drive<br>Valhalla, NY 10595<br>Year of Birth: 1966    | Co-President<br>and<br>Trustee                | Indefinite;<br>Co-<br>President<br>since 2011<br>and<br>Trustee<br>since<br>2014 for<br>TMF and<br>since<br>inception<br>for EDF | Co-Portfolio Manager<br>and Co-President of<br>Westchester Capital<br>Management, LLC, the<br>Fund's Adviser, since<br>2011.   | 3  | None  |
| <b>Non-Interested Trustees</b>   |   |  |  |  |   |
| Barry Hamerling<br>c/o Westchester<br>Capital<br>Management, LLC<br>100 Summit Lake Drive<br>Valhalla, NY 10595<br>Year of Birth: 1946 | Independent<br>Trustee                        | Indefinite;<br>since<br>2007<br>for TMF<br>and since<br>inception<br>for EDF   | Managing Partner of<br>Premium Ice Cream of<br>America since 1995.<br>Managing Partner of<br>B&J Freeport since 1990.<br>Managing Partner of<br>Let-US Creations from<br>1999 to 2011. | 3  | Trustee of<br>AXA Premier<br>VIP Trust  |

## INFORMATION ABOUT TRUSTEES AND OFFICERS (continued)

| <u>Name,<br/>Address and<br/>Year of Birth</u>   | <u>Position(s)<br/>Held with<br/>the Fund</u>   | <u>Term of<br/>Office<br/>and<br/>Length<br/>of Time<br/>Served</u>              | <u>Principal<br/>Occupation(s)<br/>During the<br/>Past Five Years</u>  | <u># of<br/>Portfolios<br/>in Fund<br/>Complex<br/>Overseen<br/>by<br/>Trustee**</u> | <u>Other<br/>Directorships<br/>Held by<br/>Trustee<br/>During<br/>the Past<br/>Five Years</u>   |
|--|---|--|--|--|---|
| Richard V. Silver<br>c/o Westchester<br>Capital<br>Management, LLC<br>100 Summit Lake Drive<br>Valhalla, NY 10595<br>Year of Birth: 1955 | Independent<br>Trustee  | Indefinite;<br>since<br>2013<br>for TMF<br>and since<br>inception<br>for EDF     | Consultant with AXA<br>Equitable Life Insurance<br>Company from May<br>2012 to April 2013.<br>Senior Executive Vice<br>President, Chief Legal<br>Officer and Chief<br>Administrative Officer<br>of AXA Equitable Life<br>Insurance Company from<br>February 2010 to April<br>2012. | 3  | None  |
| Christianna Wood<br>c/o Westchester<br>Capital<br>Management, LLC<br>100 Summit Lake Drive<br>Valhalla, NY 10595<br>Year of Birth: 1959  | Independent<br>Trustee  | Indefinite;<br>since<br>2013<br>for TMF<br>and since<br>inception<br>for EDF     | Chief Executive Officer<br>and President of Gore<br>Creek Capital, Ltd. since<br>August 2009.  | 3  | Director of<br>H&R Block<br>Corporation;<br>Director of<br>International<br>Securities<br>Exchange;<br>Director of<br>Grange<br>Insurance |
| <b>Officers</b>  |   |  |  |  |   |
| Bruce Rubin<br>Westchester Capital<br>Management, LLC<br>100 Summit Lake Drive<br>Valhalla, NY 10595<br>Year of Birth: 1959              | Vice<br>President,<br>Chief<br>Compliance<br>Officer and<br>Anti-Money<br>Laundering<br>Compliance<br>Officer | One-year<br>terms;<br>since 2010<br>for TMF<br>and since<br>inception<br>for EDF | Chief Operating Officer<br>of Westchester Capital<br>Management, LLC, the<br>Fund's Adviser.   | N/A  | N/A   |

## INFORMATION ABOUT TRUSTEES AND OFFICERS (continued)

| <u>Name,<br/>Address and<br/>Year of Birth</u>   | <u>Position(s)<br/>Held with<br/>the Fund</u> | <u>Term of<br/>Office<br/>and<br/>Length<br/>of Time<br/>Served</u>              | <u>Principal<br/>Occupation(s)<br/>During the<br/>Past Five Years</u>                              | <u># of<br/>Portfolios<br/>in Fund<br/>Complex<br/>Overseen<br/>by<br/>Trustee**</u> | <u>Other<br/>Directorships<br/>Held by<br/>Trustee<br/>During<br/>the Past<br/>Five Years</u> |
|--|---|--|--|--|---|
| Abraham Cary<br>Westchester Capital<br>Management, LLC<br>100 Summit Lake Drive<br>Valhalla, NY 10595<br>Year of Birth: 1975 | Secretary                                     | One-year<br>terms;<br>since 2012<br>for TMF<br>and since<br>inception<br>for EDF | Head of Trading of<br>Westchester Capital<br>Management, LLC, the<br>Fund's Adviser since<br>2011. | N/A  | N/A   |

\* Denotes a trustee who is an "interested person" (as that term is defined in Section 2(a)(19) of the 1940 Act) of the Funds or of the Funds' investment adviser. Messrs. Behren and Shannon are deemed to be interested persons because of their affiliation with the Funds' investment adviser, Westchester Capital Management, LLC, and because they are officers of the Funds.

\*\* The fund complex consists of TMF, The Merger Fund VL and EDF.



## **ADDITIONAL INFORMATION (Unaudited)**

For the fiscal year ended December 31, 2016, certain dividends paid by TMF may be subject to a maximum tax rate of 15% as provided for by the Jobs and Growth Tax Relief Reconciliation Act of 2003. The percentage of dividends declared from ordinary income designated as qualified dividend income for the fiscal year ended December 31, 2016 was 100.00% for TMF and 100.00% for EDF.

For corporate shareholders, the percent of ordinary income distributions qualifying for the corporate dividends-received deduction for the fiscal year ended December 31, 2016 was 100.00% for TMF and 100.00% for EDF.

The percentage of taxable ordinary income distributions that are designated as short-term capital gain distributions under Internal Revenue Code Section 871(k)(2)(c) for the fiscal year ended December 31, 2016 was 0.00% for TMF and 0.00% for EDF.

## **AVAILABILITY OF PROXY VOTING INFORMATION**

Information regarding how the Funds generally votes proxies relating to portfolio securities may be obtained without charge by calling the Funds' Transfer Agent at 1-800-343-8959 or by visiting the SEC's website at [www.sec.gov](http://www.sec.gov). Information regarding how the Funds voted proxies during the most recent 12-month period ended June 30 is available on the SEC's website or by calling the toll-free number listed above.

## **AVAILABILITY OF QUARTERLY PORTFOLIO SCHEDULE**

The Funds file their complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Funds' Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov) and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

## The Merger Fund and WCM Alternatives: Event-Driven Fund PRIVACY POLICY

We collect the following non-public personal information about you:

- Information we receive from you on or in applications or other forms, correspondence, or conversations, including, but not limited to, your name, address, phone number, social security number, assets, income and date of birth; and
- Information about your transactions with us, our affiliates, or others, including, but not limited to, your account number and balance, payments history, parties to transactions, cost basis information, and other financial information.

We do not disclose any non-public personal information about our current or former shareholders to non-affiliated third parties, except as permitted by law. For example, we are permitted by law to disclose all of the information we collect, as described above, to our transfer agent to process your transactions. Furthermore, we restrict access to your non-public personal information to those persons who require such information to provide products or services to you. We maintain physical, electronic, and procedural safeguards that comply with federal standards to guard your non-public personal information.

In the event that you hold shares of the Fund through a financial intermediary, including, but not limited to, a broker-dealer, bank, or trust company, the privacy policy of your financial intermediary would govern how your non-public personal information would be shared with non-affiliated third parties.

**THIS PRIVACY POLICY IS NOT A PART OF THE ANNUAL REPORT.**

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**Investment Adviser**

Westchester Capital Management, LLC  
100 Summit Lake Drive  
Valhalla, NY 10595  
(914) 741-5600  
[www.westchestercapitalfunds.com](http://www.westchestercapitalfunds.com)

**Administrator, Transfer Agent, Accountant,  
Dividend Paying Agent and Shareholder Servicing Agent**

U.S. Bancorp Fund Services, LLC  
615 East Michigan Street  
P.O. Box 701  
Milwaukee, WI 53201-0701  
(800) 343-8959

**Custodian**

U.S. Bank, N.A.  
1555 North Rivercenter Drive, Suite 302  
Milwaukee, WI 53212  
(800) 343-8959

**Distributor**

Quasar Distributors, LLC  
615 East Michigan Street  
Milwaukee, WI 53202

**Trustees**

Roy Behren  
Michael T. Shannon  
Barry Hamerling  
Richard V. Silver  
Christianna Wood

**Executive Officers**

Roy Behren, Co-President and Treasurer  
Michael T. Shannon, Co-President  
Bruce Rubin, Vice President and  
Chief Compliance Officer  
Abraham R. Cary, Secretary

**Counsel**

Ropes & Gray LLP  
1211 Avenue of the Americas  
New York, NY 10036

**Independent Registered  
Public Accounting Firm**

PricewaterhouseCoopers LLP  
300 Madison Avenue  
New York, NY 10017