



**WESTCHESTER**  
CAPITAL MANAGEMENT  
A VIRTUS INVESTMENT PARTNER

Form ADV, Part 2A Brochure

**ITEM 1 – COVER PAGE**

## **WESTCHESTER CAPITAL MANAGEMENT, LLC**

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**[www.westchestercapitalmanagement.com](http://www.westchestercapitalmanagement.com)**

**MARCH 30, 2023**

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

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

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

## ITEM 2 – MATERIAL CHANGES

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

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

This brochure contains the following material changes from our last update, dated March 31, 2022:

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

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## ITEM 4 - ADVISORY BUSINESS

Westchester Capital Management, LLC (“Westchester”) is a wholly owned subsidiary of Virtus Partners, Inc. (“VPI”) which is wholly owned by Virtus Investment Partners, Inc. (“Virtus”). Virtus, a publicly traded firm, is singularly committed to the long-term success of individual and institutional investors, offering asset management through its affiliated managers and select subadvisers (see [www.virtus.com](http://www.virtus.com)). Westchester (along with its predecessor firm) has been an established manager in the merger arbitrage space for over 30 years. Westchester has been an investment adviser registered with the Securities and Exchange Commission since 2010 and its predecessor firm was registered in 1980.

Westchester provides investment management services to the following portfolios, all of which are affiliated with Westchester, as subadviser under subadvisory agreements with Virtus Investment Advisers, Inc. (“VIA”), also an affiliate of Westchester:

- The Merger Fund (“TMF”)
- The Merger Fund VL (“VL”)
- Virtus Westchester Event-Driven Fund (“EDF”)
- Virtus Westchester Credit Event Fund (“CEF”)

Westchester also provides investment management services as a subadviser to the following non-affiliated mutual funds:

- JNL/Westchester Capital Event Driven Fund (“JNL”)
- JNL Multi-Manager Alternative Fund (“JARB”)
- Principal Global Multi-Strategy Fund (“GMS”)

TMF, VL, EDF, CEF, JNL, JARB and GMS are collectively referred to as the “Funds.” Each of the Funds may engage in merger arbitrage, event-driven or credit event strategies. Merger arbitrage is an investment approach designed to profit from the successful completion of proposed mergers, takeovers, tender offers, leveraged buyouts, liquidations and other types of corporate reorganizations. Event-driven is an investment approach designed to capture price movements generated by specific events such as mergers, acquisitions, asset sales, restructurings, refinancings, recapitalizations, reorganizations or other specific special situations. Credit event is an investment approach designed to profit from credit events or similar situations such as capital structure arbitrage, mergers and acquisitions, spin-offs, credit restructurings, IPOs of debt, refinancings, debt maturities, asset monetizations and other restructurings. The Funds may pursue other investment strategies as part of their principal investment strategies. A summary of each Fund’s principal investment strategies is included in its offering documents.

In pursuing these investment strategies, Westchester will invest in the following types of securities on behalf of the Funds: equity securities of any kind, debt securities of any kind, warrants, rights, convertible securities, derivatives instruments of any kind such as options, currency forwards and

swaps, special purpose acquisition companies, foreign issues, investment company securities, including closed-end funds and exchange-traded funds, initial public offerings, preferred stock and other preferred securities, American depository receipts (ADRs), real estate investment trusts (REITs), master limited partnerships (MLPs) and private investments.

Westchester tailors its advisory services to the specific investment objectives, policies and restrictions, if any, of each Fund as set forth in the relevant prospectus, prospectus supplement, statement of additional information, sub-advisory contract and other governing documents pertaining to each Fund (collectively, the “Fund Documents”). Investment advice is provided in respect of each Fund, and not individually to investors in the Funds. Each Fund is subject to the investment restrictions described, if applicable, in its Fund Documents.

In addition, Westchester is an affiliate of Westchester Capital Partners, LLC, an investment adviser (“WCP”). WCP serves as the general partner of Westchester Capital Hudson Valley Partners, L.P., a Delaware limited partnership (“HVP”), investment adviser to Westchester Capital Merger Fund Ltd., a Cayman Islands exempt company (“LTD”), and the manager of Westchester Capital Master Trust, a Bermuda trust (the “Master Fund”), a master-feeder structure in which HVP and LTD comprise the feeder funds to the Master Fund. As of December 31, 2022, the remaining investors in LTD redeemed and WCP made the decision to wind down and dissolve LTD.

As of December 31, 2022, Westchester managed approximately \$5,348,168,000 in client assets on a discretionary basis and did not manage any assets on a non-discretionary basis.

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

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

The fees Westchester receives for sub-advisory services provided to the Funds are separately negotiated between Westchester and the unaffiliated or affiliated investment adviser and/or Fund and fixed at the time each Fund’s sub-advisory agreement is entered into. Fees typically are based on a percentage of assets under management.

With respect to TMF, VL, EDF and CEF, Westchester receives 50% of the net advisory fee paid by such funds to the affiliated investment adviser. With respect to non-affiliated sub-advised funds, Westchester is paid a sub-advisory fee at an annual rate ranging from 0.75% to 0.90% of the average daily net assets of such non-affiliated sub-advised funds. The sub-advisory fee accrues daily and is paid monthly. Shareholders invested in a Fund subadvised by Westchester should refer to the Fund's Prospectus for more detail regarding the Fund’s applicable fees.

Our fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which will be incurred by the client. Please refer to *Item 12 – Brokerage Practices* for more information on our brokerage practices. Our clients may also incur certain charges imposed by custodians, brokers and other third parties such as but not limited to fees charged by managers,

custodial fees, deferred sales charges, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, closed-end funds, ETFs and alternative investments have their own operating expenses, including compensation paid to their advisers and other service providers as well as other expenses and fees. This information is disclosed in the specific fund's prospectus or offering documents.

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

Our sub-advisory contracts provide for termination without penalty (generally with a sixty-day notice) by the client, adviser or subadviser and termination in the event of an assignment (as such term is defined in the Investment Company Act).

Some of Westchester's affiliated persons accept compensation via an internal sales bonus for the sale of securities or other investment products, including from the sale of affiliated mutual funds which pay Westchester an advisory fee. This practice presents a conflict of interest and gives Westchester and its affiliated persons an incentive to recommend investment products based on the compensation received, rather than on a client's needs. Westchester addresses conflicts that arise, including disclosing the conflicts to clients. The Firm's affiliated persons do not typically talk with or promote products to individuals, but rather, talk with platform partners and advisers about potential investments and those firms' supervised persons have the responsibility of assessing the needs of the end client. The Firm's affiliated persons do talk directly with institutional prospects and/or institutional clients.

Shareholders have the option to purchase investment products that we recommend through other brokers or agents that are not affiliated with Westchester.

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

Westchester is an affiliate of WCP, an investment adviser since 1996, which provides investment advice as (i) the general partner of HVP, (ii) investment adviser to LTD, and (iii) the manager of the Master Fund, a master-feeder structure in which HVP and LTD comprise the feeder funds to the Master Fund. The Master Fund engages in merger arbitrage and event-driven strategies. WCP does not charge any fee to the Master Fund for its services. Instead, fees are paid at the feeder fund level as described below.

WCP charges HVP a 1.0% management fee which is accrued and calculated monthly and payable in arrears as of the last day of each calendar quarter. In addition, WCP is entitled to an incentive allocation, which is an amount, paid annually, equal to 20% of the net profits of HVP, if any, during each fiscal year (subject to recoupment of each applicable limited partner's prior cumulative net loss).

Effective January 1, 2023, WCP no longer charges LTD a management or incentive fee as a result of LTD having no investors and WCP's decision to wind down LTD.

Roy D. Behren and Michael T. Shannon are Co-Presidents and Co-Chief Investment Officers of Westchester and WCP. The fact that Westchester's and WCP's portfolio managers manage accounts that are charged a performance-based fee and accounts that are charged an asset-based fee (and accounts that are charged fees at different rates) creates the potential for a conflict of interest, since receipt of a portion of any profits with respect to Westchester-advised and WCP-advised accounts that are charged a performance-based fee (or a fee at a higher rate) could, in theory, create an incentive to favor such accounts (*e.g.*, by allocating to them the most favorable investment opportunities or by allocating more resources and time to managing those accounts). However, Westchester believes that any conflicts of interest are mitigated, at least in part, for the following reasons: (i) the Funds and the Master Fund all may engage in merger arbitrage and other event-driven strategies and, in many respects, are managed in a similar fashion; (ii) Westchester and WCP follow written trade allocation procedures designed to allocate securities purchases and sales among the Funds and the Master Fund in a fair and equitable manner over time; and (iii) all allocations are subject to review by Westchester's and WCP's Chief Compliance Officer.

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

Westchester serves as subadviser to certain investment portfolios of registered investment companies, including a family of mutual funds known as the Virtus Funds pursuant to a written subadvisory agreement with Virtus Investment Advisers, Inc. Westchester also serves as subadviser to non-affiliated funds including JNL, JARB and GMS.

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

The Funds may invest a substantial portion of their total assets in companies which are involved in publicly announced mergers, takeovers, tender offers, leveraged buyouts, spin-offs, liquidations and other corporate reorganizations. Merger arbitrage is a highly specialized investment approach generally designed to profit from the successful completion of such transactions. Although a variety of strategies may be employed depending upon the nature of the reorganizations selected for investment, the simplest form of merger-arbitrage activity involves purchasing the shares of an announced acquisition target at a discount to their expected value upon completion of the acquisition. The size of this discount, known as the arbitrage "spread," may represent a Fund's potential profit on such an investment.

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

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

The Funds may engage in active trading and may invest a portion of their assets to seek short-term capital appreciation.

Some of the Funds invest in fixed and floating rate income investments of any credit quality or maturity, including below investment grade bonds (commonly known as "junk bonds"), bank debt and preferred stock and option writing strategies, including, for example, where that Fund writes call options on its portfolio securities or a market index that is representative of its portfolio with the expectation of generating additional income.

On behalf of EDF, CEF, JNL, JARB and GMS, Westchester may also, among other things, use the following "event-driven" strategies: (i) special situations strategy, including capital structure arbitrage and convertible arbitrage, (ii) distressed/restructuring strategies, and (iii) option income strategies. In addition to these strategies, Westchester may invest in other investments or utilize other strategies. For example, EDF, CEF, JNL, and JARB may pursue other event-driven strategies, including investing in companies that may be subject to significant regulatory issues or changes or that may be exploring strategic alternatives. The success of those strategies will depend upon, among other things, Westchester's skill in evaluating the likelihood of the various potential outcomes and the market's reaction to those outcomes.

Each Fund's Fund Documents include a summary of the Fund's principal investment strategies.

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

*Convertible Security Risk* – Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. Because convertible securities are higher in the firm's capital structure than equity, convertible securities are generally not as risky as the equity securities of the same issuer. However, convertible securities may gain or lose value due to changes in the interest rates and other general economic conditions, industry fundamentals, market sentiment and changes in the issuer's operating results and credit ratings.

*Counterparty Risk* – To the extent a Fund enters into contracts with counterparties, such as OTC derivatives contracts, such Fund runs the risk that the counterparty will be unable or unwilling to make timely settlement payments or otherwise honor its obligations. If a counterparty fails to meet its contractual obligations, goes bankrupt or otherwise experiences a business interruption, a Fund could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses for such Fund. Counterparty risk is greater for derivatives with longer maturities where events may intervene to prevent settlement. Counterparty risk is also greater when a Fund has concentrated its derivatives with a single or small group of counterparties as it sometimes does as



a result of its use of swaps and other OTC derivatives. There is neither an explicit limit on the amount of exposure that a Fund may have with any one counterparty nor a requirement that counterparties maintain a specific rating by a nationally recognized rating organization in order to be considered for potential transactions. To the extent that Westchester's view with respect to a particular counterparty changes (whether due to external events or otherwise), existing transactions are not required to be terminated or modified. Counterparty risk is pronounced during unusually adverse market conditions and is particularly acute in environments (like those of 2008) in which financial services firms are exposed to systemic risks of the type evidenced by the insolvency of Lehman Brothers in 2008 and subsequent market disruptions.

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

Counterparty risk with respect to derivatives will be affected by new rules and regulations affecting the derivatives market. New regulations may cause certain bank and dealer counterparties to enter into derivatives transactions through affiliated entities, which affiliates may be less creditworthy than the bank or dealer itself. Credit risk of market participants with respect to derivatives that are centrally cleared is concentrated in a few clearing houses, and it is not clear how an insolvency proceeding of a clearing house would be conducted and what impact an insolvency of a clearing house would have on the financial system. A clearing member is obligated by contract and by applicable regulation to segregate all funds received from customers with respect to cleared derivatives transactions from the clearing member's proprietary assets. However, all funds and other property received by a clearing member from its customers with respect to cleared derivatives are generally held by the clearing member on a commingled basis in an omnibus account and the clearing member may invest those funds in certain instruments permitted under the applicable regulations. Therefore, a Fund might not be fully protected in the event of the bankruptcy of a clearing member, as such Fund would be limited to recovering only a pro rata share of all available funds segregated on behalf of the clearing member's customers for a relevant account class. Also, the clearing member is required to transfer to the clearinghouse the amount of margin required by the clearinghouse for cleared derivatives, which amounts are generally held in an omnibus account at the clearinghouse for all customers of the clearing member. Regulations promulgated by the CFTC require that the clearing member notify the clearinghouse of the initial margin provided by the clearing member to the clearinghouse that is attributable to each customer. However, if the

clearing member does not accurately report a Fund's initial margin, such Fund is subject to the risk that a clearinghouse will use the Fund's assets held in an omnibus account at the clearinghouse to satisfy payment obligations of a defaulting customer of the clearing member to the clearinghouse. In addition, clearing members generally provide to the clearinghouse the net amount of variation margin required for cleared swaps for all of its customers in the aggregate, rather than individually for each customer. A Fund is therefore subject to the risk that a clearing house will not make variation margin payments owed to such Fund if another customer of the clearing member has suffered a loss and is in default, and the risk that the Fund will be required to provide additional variation margin to the clearing house before the clearing house will move the Fund's cleared derivatives transactions to another clearing member. In addition, if a clearing member does not comply with the applicable regulations or its agreement with a Fund, or in the event of fraud or misappropriation of customer assets by a clearing member, such Fund could have only an unsecured creditor claim in an insolvency of the clearing member with respect to the margin held by the clearing member.

Also, in the event of a counterparty's (or its affiliate's) insolvency, a Fund's ability to exercise remedies, such as the termination of transactions, netting of obligations and realization on collateral, could be stayed or eliminated under new special resolution regimes adopted in the United States, the European Union and various other jurisdictions. Such regimes provide government authorities with broad authority to intervene when a financial institution is experiencing financial difficulty. In particular, with respect to counterparties who are subject to such proceedings in the European Union, the liabilities of such counterparties to a Fund could be reduced, eliminated, or converted to equity in such counterparties (sometimes referred to as a "bail in").

*Debt Securities Risk* – Debt securities may fluctuate in value and experience periods of reduced liquidity due to, among other things, changes in interest rates, governmental intervention, general economic conditions, industry fundamentals, market sentiment and the financial condition of the issuer, including the issuer's credit rating or financial performance. During those periods, a Fund may experience high levels of shareholder redemptions, and may have to sell securities at times when it would otherwise not do so, and at unfavorable prices. Debt securities may be difficult to value during such periods. Debt securities are subject to interest rate risk, which is the risk that when interest rates rise, the values of fixed income debt securities tend to decline. Debt securities have varying levels of sensitivity to changes in interest rates, and the values of securities with longer durations tend to be more sensitive to changes in interest rates. Debt securities are subject to the risk that if interest rates decline, issuers of debt securities may exercise redemption or call provisions. This may force a Fund to reinvest redemption or call proceeds in securities with lower yields, which may reduce Fund performance. Debt securities are also subject to credit risk, which is the risk that the issuer of an instrument may default on interest and/or principal payments due to a Fund. An increase in credit risk or a default will cause the value of a Fund's fixed and floating rate income securities to decline. Securities rated below-investment-grade (and unrated securities of comparable credit quality), commonly referred to as "high-yield" or "junk" bonds, have speculative characteristics and generally have more credit risk than higher-rated securities. Lower rated issuers are more likely to default and their securities could become worthless. Below-investment-grade securities are also subject to greater price volatility than investment grade securities. In addition, investments in defaulted securities and obligations of distressed issuers,

such as issuers undergoing or expected to undergo bankruptcy, may be illiquid and are considered highly speculative.

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

*Derivatives Risk* – Derivative transactions are contracts whose value is derived from the value of an underlying asset, index or rate, including futures, options, non-deliverable forwards, forward foreign currency exchange contracts and swap agreements. A Fund may use derivatives to hedge against factors that affect the value of its investments, such as interest rates and foreign currency exchange rates. A Fund may also utilize derivatives as part of its overall investment technique to gain or lessen exposure to various securities, markets, volatility, dividend payments and currencies.

Derivatives typically involve greater risks than traditional investments. It is generally more difficult to ascertain the risk of, and to properly value, derivative contracts. Many derivatives, and particularly those that are privately negotiated, are complex and often valued subjectively. Improper valuations can result in increased cash payment requirements to counterparties or a loss of value to a Fund. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. Derivatives are usually less liquid than traditional securities and are subject to counterparty risk (the risk that the other party to the contract will default or otherwise not be able to perform its contractual obligations). In addition, some derivatives transactions may involve potentially unlimited losses.

Derivative contracts entered into for hedging purposes may also subject a Fund to losses if the contracts do not correlate with the assets, indexes or rates they were designed to hedge. In regard to currency hedging using forward contracts, it is generally not possible to precisely match the foreign currency exposure of such foreign currency forward contracts to the value of the securities involved due to fluctuations in the market values of such securities and cash flows into and out of a Fund between the date a foreign currency forward contract is entered into and the date it expires.

Governments, agencies and/or other regulatory bodies may adopt or change laws or regulations that could adversely affect a Fund's ability to invest in derivatives as the Adviser intends. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), among other things, grants the Commodity Futures Trading Commission (the "CFTC") and SEC broad rulemaking authority to implement various provisions of the Dodd-Frank Act including comprehensive regulation of the over-the-counter ("OTC") derivatives market. The implementation of the Dodd-Frank Act could adversely affect a Fund by placing limits on derivative transactions, and/ or increasing transaction and/or regulatory compliance costs. For example, the CFTC has adopted rules that apply an aggregation standard for position limit purposes, which may further limit a Fund's ability to trade futures contracts and swaps.

There are also special tax rules applicable to certain types of derivatives, which could affect the amount, timing and character of a Fund's income or loss and hence of its distributions to shareholders by causing holding period adjustments, converting short-term capital losses into long-term capital losses, and accelerating a Fund's income or deferring its losses. A Fund's use of derivatives may also increase the amount of taxes payable by shareholders or the resources required by a Fund or its Adviser or other service providers to comply with particular regulatory requirements.

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

*Foreign Investing Risk* – Investing in foreign companies or ETFs which invest in foreign companies, may involve more risks than investing in U.S. companies and such investments may entail political, cultural, regulatory, legal and tax risks different from those associated with comparable transactions in the United States. These risks can increase the potential for losses in a Fund and may include, among others, currency devaluations, currency risks (fluctuations in currency exchange rates), country risks (political, diplomatic, regional conflicts, terrorism, war, social and economic instability and policies that have the effect of limiting or restricting foreign investment or the movement of assets) as well as different trading and settlement practices, less government supervision, less publicly available information, limited trading markets and greater volatility than comparable investments in U.S. companies.

Additionally, investments in securities denominated in foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar. A decline in the values of foreign currencies relative to the U.S. dollar will reduce the values of securities held by a Fund and denominated in those currencies.

*Hedging Transactions Risk* – The success of a Fund's hedging strategy, if used, will be subject to Westchester's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a Fund's hedging strategy will also be subject to Westchester's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. If Westchester's assessments or calculations prove inaccurate, a Fund's hedging strategy may prove ineffective and a Fund may incur greater losses than it otherwise would have incurred had such Fund not employed the hedging strategies. Hedging strategies in general are usually intended to limit or reduce investment risk, but also can be expected to limit or reduce the potential for profit or the opportunity for gain if the value of a hedged portfolio position should increase. Further, hedging strategies may not perform as anticipated and may generate losses. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of those portfolio

positions or prevent losses if the values of those positions decline. Rather, hedging typically establishes other positions designed to gain from those same declines, thus seeking to moderate the decline in the portfolio position's value. For a variety of reasons, Westchester may not establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a Fund from achieving the intended hedge or expose the Fund to risk of loss. In addition, it is not possible to hedge fully or perfectly against any risk, and hedging entails its own costs. Westchester may determine, in its sole discretion, not to hedge against certain risks and certain risks may exist that cannot be hedged. Furthermore, Westchester may not anticipate a particular risk so as to hedge against it effectively. In addition, hedging will generally require the use of a portion of a Fund's assets for margin or settlement payments or other purposes. For example, a Fund from time to time may be required to make margin, settlement or other payments, including intra-month, in connection with the use of certain hedging instruments. Counterparties to any hedging transaction may demand payments on short notice, including intra-day. As a result, a Fund may liquidate assets sooner than it otherwise would have and/or maintain a greater portion of its assets in cash and other liquid securities than it otherwise would have, which portion may be substantial, in order to have available cash to meet current or future margin calls, settlement or other payments, or for other purposes. Moreover, due to volatility in the currency markets and changing market circumstances, Westchester may not be able to accurately predict future margin requirements, which may result in a Fund holding excess or insufficient cash and liquid securities for such purposes. Where a Fund does not have cash or assets available for such purposes, such Fund may be unable to comply with its contractual obligations, including without limitation, failing to meet margin calls or settlement or other payment obligations. If a Fund defaults on any of its contractual obligations, such Fund (and accordingly, its shareholders) may be materially adversely affected. Hedging activities involve additional expenses and the risk of loss when a hedge is unwound, especially in the case of reorganizations that are terminated. There is no assurance that any such hedging techniques will be employed by Westchester on behalf of a Fund or that any of those employed will be successful.

*Interest Rate Risk* – Prices of debt securities and preferred stocks tend to move inversely with changes in interest rates. When interest rates fall, the market value of the respective debt securities and preferred securities usually increase. Conversely, when interest rates rise, the market value of the respective debt securities and preferred securities usually declines. As such, a change in interest rates may affect prices of a Fund's debt securities and preferred securities and, accordingly, such Fund's share price.

*Large Shareholder Risk* – Certain account holders may from time to time own or control a significant percentage of a Fund's shares. A Fund may be subject to the risk that a redemption by large shareholders of all or a portion of their Fund shares or a purchase of Fund shares in large amounts and/or on a frequent basis, including as a result of asset allocation decisions made by Westchester, will adversely affect such Fund's performance if it is forced to sell portfolio securities or invest cash when Westchester would not otherwise choose to do so. This risk will be particularly pronounced if one shareholder owns a substantial portion of a Fund. Redemptions of a large number of shares may affect the liquidity of a Fund's portfolio, increase the Fund's transaction costs and/or lead to the liquidation of the Fund. Such transactions also potentially limit the use of any capital loss carryforwards and certain other losses to offset future realized capital gains (if any).

*Legal and Regulatory Risk* – Legal, tax and regulatory changes could occur and may adversely affect a Fund, its investments and its ability to pursue its investment strategies and/or increase the costs of implementing such strategies. New (or revised) laws or regulations may be imposed by the U.S. Commodity Futures Trading Commission (“CFTC”), the U.S. Securities and Exchange Commission (“SEC”), the Internal Revenue Service (“IRS”), the U.S. Federal Reserve or other governmental regulatory authorities or self-regulatory organizations that could adversely affect a Fund. A Fund also may be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by governmental regulatory authorities or self-regulatory organizations, such as statutes and regulations governing mergers, takeovers or potential monopolies. Governments may take actions, including unexpected actions contrary to past policy and precedent, specifically designed to prevent or limit mergers or reorganizations for, among other reasons, to achieve political goals, to preserve domestic jobs, tax revenue or important industries, all of which may adversely affect a Fund’s investments.

Regulators around the globe have increasingly taken measures to seek to increase the stability of the financial markets, including by proposing rules that may curtail a Fund’s ability to use derivative and other instruments and that may require a Fund to change how it has been managed historically. Westchester continues to evaluate these measures, and there can be no assurance that they will not adversely affect the Funds and their performance. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The CFTC, the SEC, the Federal Deposit Insurance Corporation, FTC, other regulators and self-regulatory organizations and exchanges are authorized under these statutes, regulations and otherwise to take extraordinary actions in the event of market emergencies. Additionally, the withdrawal of governmental and/or self-regulatory support, failure of governmental and/or self-regulatory efforts in response to a financial crisis, or investor perception that those efforts are not succeeding could negatively affect financial markets generally as well as the values and liquidity of certain securities. Federal, state, and other governments, their regulatory agencies, or self-regulatory organizations may take actions that affect the regulation of the securities in which a fund invests or the issuers of such securities in ways that are unforeseeable.

The CFTC and certain futures exchanges have established limits, referred to as “position limits,” on the maximum net long or net short positions which any person may hold or control in particular options and futures contracts; those position limits may apply to certain other derivatives positions a Fund may wish to take. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if a Fund does not intend to exceed applicable position limits, it is possible that different clients managed by Westchester and its affiliates may be aggregated for this purpose. Therefore, it is possible that the trading decisions of Westchester may have to be modified and that positions held by a Fund may have to be liquidated in order to avoid exceeding such limits. The modification of investment decisions or the elimination of open positions, if it occurs, may adversely affect the performance of a Fund.

The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and may adopt rules requiring monthly public disclosure in the future. In addition, other non-U.S. jurisdictions where a Fund may trade have adopted reporting requirements. If a Fund’s short positions or its strategy become generally known, it could have a

significant effect on Westchester's ability to implement its investment strategy. In particular, it would make it more likely that other investors could cause a short squeeze in the securities held short by a Fund forcing the fund to cover its positions at a loss. In addition, if other investors engage in copycat behavior by taking positions in the same issuers as a Fund, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to a Fund could decrease drastically. Such events could make a Fund unable to execute its investment strategy. In addition, if the SEC were to adopt restrictions regarding short sales, they could restrict a Fund's ability to engage in short sales in certain circumstances, and the Fund may be unable to execute its investment strategies as a result.

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

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

*Leveraging Risk* – If a Fund employs leverage, such as borrowing money to purchase securities, engaging in reverse repurchase agreements, lending portfolio securities and investing in derivative instruments, the value of a Fund's shares could be expected to be more volatile. Unless profits and income on securities acquired with leverage exceed the costs of the leverage, the use of leverage will diminish the investment performance of a Fund compared with what it would have been without leverage, and the use of leverage will cause any losses the Fund incurs to be greater than they otherwise would have been had the Fund not employed leverage.

*Liquidity Risk* – Certain securities in which a Fund invests may be difficult to sell at the time and price beneficial to the Fund, for example due to low trading volumes or legal restrictions. When there is no willing buyer or a security cannot be readily sold, a Fund may have to sell at a lower price or may be unable to sell the security at all. The sale of such securities may also require a Fund to incur expenses in addition to those normally associated with the sale of a security.

In addition to this, certain shareholders, including affiliates of a Fund’s investment adviser and/or subadviser(s), may from time to time own or control a significant percentage of a Fund’s shares. Redemptions by these shareholders of their shares of the Fund may increase such Fund’s liquidity risk by causing the Fund to have to sell securities at an unfavorable time and/or price.

*Lower-Rated Securities Risk* – Securities rated below the four highest rating categories of a nationally recognized statistical rating organization, may be known as “high-yield” securities and commonly referred to as “junk bonds.” The highest of the ratings among these nationally recognized statistical rating organizations is used to determine the security’s classification. Such securities entail greater price volatility and credit and interest rate risk than investment-grade securities. Analysis of the creditworthiness of high-yield issuers is more complex than for higher-rated securities, making it more difficult for Westchester to accurately predict risk. There is a greater risk with high-yield fixed income securities that an issuer will not be able to make principal and interest payments when due. If a Fund pursues missed payments, there is a risk that Fund expenses could increase. In addition, lower-rated securities may not trade as often and may be less liquid than higher-rated securities, especially during periods of economic uncertainty or change. As a result of all of these factors, these bonds are generally considered to be speculative. In recent years, there has been a broad trend of weaker or less restrictive covenant protections in the high yield market. Among other things, under such weaker or less restrictive covenants, borrowers might be able to exercise more flexibility with respect to certain activities than borrowers who are subject to stronger or more protective covenants. For example, borrowers might be able to incur more debt, including secured debt, return more capital to shareholders, remove or reduce assets that are designated as collateral securing high yield securities, increase the claims against assets that are permitted against collateral securing high yield securities or otherwise manage their business in ways that could impact creditors negatively. In addition, certain privately held borrowers might be permitted to file less frequent, less detailed or less timely financial reporting or other information, which could negatively impact the value of the high yield securities issued by such borrowers. Each of these factors might negatively impact the high yield instruments held by a Fund.

*Management Risk* – The Funds are subject to management risk because they are actively managed investment portfolios. Westchester’s judgments about the attractiveness and potential appreciation of a security may prove to be inaccurate and may not produce the desired results. Westchester will apply its investment techniques and risk analyses in making investment decisions for the Funds, but there is no guarantee that its decisions will produce the intended result or that its evaluation of the likelihood that a specific merger or reorganization will be completed as expected will prove correct. The success of any strategy employed by Westchester will depend upon, among other things, Westchester’s skill in evaluating the likelihood of the successful completion of a particular catalyst or a related event.

*Market Risk* – The value of the securities in which a Fund invests may go up or down in response to the prospects of individual issuers and/or general economic conditions. Such price changes may be temporary or may last for extended periods.

Instability in the financial markets may expose each Fund to greater market and liquidity risk and potential difficulty in valuing portfolio instruments that it holds. In response to financial markets



that experienced extreme volatility, and in some cases a lack of liquidity, the U.S. Government and other governments have taken a number of unprecedented actions, including acquiring distressed assets from financial institutions and acquiring ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear. Additional legislation or government regulation may also change the way in which funds themselves are regulated, which could limit or preclude a Fund's ability to achieve its investment objective. Local, regional or global events such as war or military conflict (e.g. Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness or other public health issue, recessions, inflation, rapid interest rate changes, supply chain disruptions, sanctions, or other events could have a significant impact on a Fund and its investments, hampering the ability of a Fund's portfolio managers to invest a Fund's assets as intended.

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

An outbreak of respiratory disease caused by a novel coronavirus designated as COVID-19 emerged in late 2019 and spread internationally. The transmission of COVID-19 and efforts to contain its spread have resulted in, among other things, border closings and other significant travel restrictions and disruptions, significant disruptions to business operations, supply chains and customer activity, event cancellations and restrictions, service cancellations, reductions and other changes, significant challenges in healthcare service preparation and delivery, and prolonged quarantines, as well as general concern and uncertainty. These impacts also have caused, and may continue to contribute to, significant market volatility, exchange trading suspensions and closures, and declines in global financial markets, which have caused losses for investors. The COVID-19 pandemic and its effects may be short term or may last for an extended period of time, and in either case could result in significant market volatility, exchange trading suspensions and closures, declines in global financial markets, higher default rates, and a substantial economic downturn or recession. Health crises caused by the outbreak of COVID-19 (or similar outbreaks of infectious disease) and governmental responses thereto may exacerbate other pre-existing political, social, economic, market and financial risks. The impact of the COVID-19 outbreak, and other epidemics and pandemics that may arise in the future, could negatively affect the global economy, the economies of individual countries, and the financial performance of individual companies, sectors, industries, asset classes, and markets in significant and unforeseen ways. Any such impact could adversely affect the value and liquidity of a Fund's investments, limit severely a Fund's investment opportunity set, impair a Fund's ability to satisfy redemption requests, and negatively impact a Fund's performance. In addition, the outbreak of COVID-19 or similar infectious diseases, and measures taken to mitigate their effects, could result in disruptions to the services provided to a Fund by its service providers, leading to operational delays and failures and additional investment losses. Issues arising out of or related to this recent health crisis and governmental and business responses thereto may cause one or more events in which a Fund has invested to fail to close or occur as expected by Westchester, leading to such Fund experiencing investment losses.

*Merger-Arbitrage and Event-Driven Risk* – Merger-arbitrage and event-driven investing involves the risk that Westchester’s evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue or other event, will prove incorrect and that a Fund’s return on the investment will be negative. Even if Westchester’s judgment regarding the likelihood of a specific outcome proves correct, the expected event may be delayed or completed on terms other than those originally proposed, which may cause a Fund to lose money or fail to achieve a desired rate of return.

The success of a Fund’s merger-arbitrage strategy also depends on the overall volume of merger activity, which has historically been cyclical in nature. During periods when merger activity is low, it may be difficult or impossible to identify opportunities for profit or to identify a sufficient number of such opportunities to provide diversification among potential merger transactions and a Fund may not achieve its investment objective. If Westchester determines that a proposed acquisition or other corporate organization is likely to be consummated, a Fund may purchase the target company’s securities at prices often only slightly below the value expected to be paid or exchanged for such securities upon completion of the reorganization (and often substantially above the prices at which such securities traded immediately prior to the announcement of the proposed transaction). If the reorganization appears unlikely to be consummated or in fact is not consummated or is delayed, the market price of the target’s securities may decline sharply. Similarly, if a Fund has sold short the acquirer’s securities in anticipation of covering the short position by delivery of identical securities received in the exchange, the failure of the transaction to be consummated may force such Fund to cover its short position in the open market at a price higher than that at which it sold short, with a resulting loss. In addition, if a Fund purchases the target’s securities at prices above the offer price because Westchester determines that the offer is likely to be increased or a different and higher offer made, such purchases may be subject to a greater degree of risk.

If, in a transaction in which a Fund has sold the target’s securities short (often at prices significantly below the announced offer price for such securities) based on a determination that the transaction is unlikely to be consummated, and the transaction, in fact, is consummated at the announced price or higher, such Fund may suffer substantial losses if it is forced to cover the short position in the open market at a higher price. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed at reasonable costs.

A Fund may invest in hostile tender offers, proposed leveraged buyouts and other similar situations. Those types of transactions have a greater risk that the proposed transaction will not be completed successfully and, consequently, a greater risk of loss. A failed transaction or reorganization may occur for a number of reasons, including failure to get shareholder approval, governmental action or intervention, or failure to get regulatory approval. A Fund may incur significant losses unwinding its merger-arbitrage and event-driven positions in the event that a proposed merger or other corporate event does not occur as expected by Westchester or Westchester determines the position no longer represents an attractive investment opportunity.

A Fund may invest in and/or hold positions in a company where Westchester believes the compensation to be paid to shareholders of that company in connection with a proposed merger,

corporate reorganization or other event significantly undervalues the company's securities. In those cases, Westchester may cause a Fund to participate in legal or other actions, such as appraisal actions, to seek to increase the compensation such Fund receives for the securities the Fund holds. Such actions can be expensive and require prolonged periods to litigate or resolve. There can be no assurance that any such actions will be successful or that a Fund would be able to liquidate the position during the pendency of the action if Westchester determined doing so was in the Fund's best interests.

The Funds expect to employ strategies that are not designed to benefit from general market appreciation or improved economic conditions in the global economy. Accordingly, the Funds have historically underperformed the broad equity markets under certain market conditions, such as some periods when there has been rapid appreciation in the equity markets, and may continue to do so in the future.

*Operational Risk* – In addition to the risks associated with Westchester's implementation of the Funds' investment program, the Funds also are subject to operational risk associated with the provision of investment management and other services to the Funds by Westchester and the Funds' other service providers. Operational risk is the risk that deficiencies in Westchester's internal systems (including communications and information systems) or controls, or in those of a service provider to whom Westchester has contractually delegated certain of its responsibilities, may cause losses for the Funds or hinder the Funds' operations. Operational risk results from inadequate procedures and controls, employee fraud, recordkeeping error, human error, and system failures by Westchester or a service provider. For example, trading delays or errors caused by Westchester prevent the Funds from purchasing a security that Westchester expects will appreciate in value, thus reducing the Funds' opportunity to benefit from the security's appreciation. Westchester is generally not contractually liable to the Funds for operational losses associated with operational risk.

*Options Risk* – A Fund may engage in a variety of options transactions. When a Fund purchases options, it risks the loss of the cash paid for the options if the options expire unexercised. When a Fund sells (writes) covered call options, it forgoes the opportunity to benefit from an increase in the value of the underlying stock above the exercise price, but it continues to bear the risk of a decline in the value of the underlying stock. A Fund receives a premium for selling a call option but the price the Fund realizes from the sale of the stock upon exercise of the option could be substantially below the prevailing market price of the stock. The purchaser of the covered call option may exercise the call at any time during the option period (the time between when the call is sold and when it expires). When a call option which a Fund has written is exercised, such Fund must deliver the security upon which the call is written. This means that the Fund would be forced to deliver a security out of its portfolio and replace it, or purchase the same security on the open market for delivery. Under either scenario, the Fund would face increased transaction costs because of its need to purchase securities, either for delivery to the party exercising the call option or to replace a security delivered to the other party out of its portfolio. If the value of the stock underlying the call option is below the exercise price, the call is not likely to be exercised, and a Fund could have an unrealized loss on the stock, offset by the amount of the premium received by such Fund when it sold the option. When a Fund sells (writes) put options, a Fund's gains are limited to the extent of the premiums received; however, in return for the option premium, a Fund

accepts the risk that it may be required to purchase the underlying asset at a price in excess of the asset's market value.

The market value of options written by a Fund will be affected by many factors, including changes in the market value of underlying securities or indices, changes in the dividend rates of underlying securities (or in the case of indices, the securities comprising such indices), changes in interest rates, changes in the actual or perceived volatility of the stock market and underlying securities, and the remaining time to an option's expiration. The market value of an option also may be adversely affected if the market for the option is reduced or becomes less liquid.

There is no assurance that a liquid market will be available at all times for a Fund to sell call options or to enter into closing purchase transactions. In addition, the premiums a Fund receives for selling call options may decrease as a result of a number of factors, including changes in interest rates generally, a decline in stock market volumes or a decrease in the price volatility of the underlying securities. A Fund incurs transaction expenses when selling call options. A Fund incurs transaction expenses when selling call options or put options. The options transactions of a Fund may increase its portfolio turnover rates and the amount of commissions a Fund will pay.

A Fund may write call options that are "in the money," meaning calls whose exercise price is less than the market price of the underlying stock or basket of stocks when the options are written or "at the money," meaning calls whose exercise price is equal to the market price of the underlying stock or basket of stocks when the options are written. Call options that are written "in the money" or "at the money" are more likely to be exercised by the counterparty than other options and effectively eliminate a Fund's ability to benefit from appreciation in the market value of the securities on which the options are written during the period of the option.

Transactions involving the disposition of a Fund's underlying securities (whether pursuant to the exercise of a call option or otherwise) give rise to capital gains or losses. Because a Fund has no control over the exercise of the call options, shareholder redemptions, or corporate events affecting its equity securities investments (such as mergers or reorganizations), it may be forced to realize capital gains or losses at inopportune times.

*Portfolio Turnover Risk* – The frequency of a Fund's transactions will vary from year to year, though merger-arbitrage and event-driven portfolios typically have higher turnover rates than portfolios of typical long-only funds. Increased portfolio turnover will result in higher brokerage commissions, dealer mark-ups and other transaction costs and may result in increased distributions of taxable capital gains to Fund shareholders, including short-term capital gains taxable to shareholders at ordinary income rates, when Fund shares are held in a taxable account. Higher costs associated with increased portfolio turnover reduce a Fund's performance. The Funds normally expect to engage in active and frequent trading and expect to have a high rate of portfolio turnover.

*Short Selling Risk* – A Fund may engage in short sales, which are transactions in which the Fund sells a security that it does not own (or that it owns but does not intend to deliver) in anticipation that the price of the security will decline. In order to establish a short position in a security, a Fund must first borrow the security from a broker or other institution to complete the sale. The Fund

may not always be able to borrow a security, or to close out a short position at a particular time or at an acceptable price. If the price of the borrowed security increases between the date of the short sale and the date on which a Fund replaces the security, such Fund may experience a loss. A Fund's loss on a short sale is limited only by the maximum attainable price of the security (which could be limitless) less the price the Fund paid for the security at the time it was borrowed.

*Small and Medium Capitalization Risk* – A Fund's investments in smaller and medium-sized companies carry more risks than investments in larger companies. Companies with small and medium size market capitalization often have narrower markets, fewer products or services to offer and more limited managerial and financial resources than do larger, more established companies. As a result, the performance of small and medium-sized companies may be more volatile, and they may face a greater risk of business failure, which could increase the volatility and risk of loss to a Fund.

*Special Purpose Acquisition Companies ("SPAC") Risk* - A SPAC is typically a publicly traded company that raises funds through an initial public offering ("IPO") for the purpose of acquiring or merging with another company to be identified subsequent to the SPAC's IPO. Because SPACs and similar entities have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices. In addition, these securities, which may be traded in the over-the-counter market, may be considered illiquid and/or may be subject to restrictions on resale. An investment in a SPAC is subject a variety of risks, including that (i) a significant portion of the monies raised by the SPAC for the purpose of identifying and effecting an acquisition or merger may be expended during the search for a target transaction; (ii) an attractive acquisition or merger target may not be identified at all and the SPAC will be required to return any remaining monies to shareholders; (iii) any proposed merger or acquisition may be unable to obtain the requisite approval, if any, of SPAC shareholders; (iv) an acquisition or merger once effected may prove unsuccessful and an investment in the SPAC may lose value; (v) the warrants or other rights with respect to the SPAC held by a Fund may expire worthless or may be repurchased or retired by the SPAC at an unfavorable price; (vi) a Fund will be delayed in receiving any redemption or liquidation proceeds from a SPAC to which it is entitled; (vii) an investment in a SPAC may be diluted by additional later offerings of interests in the SPAC or by other investors exercising existing rights to purchase shares of the SPAC; (viii) no or only a thinly traded market for shares of or interests in a SPAC may develop, leaving a Fund unable to sell its interest in the SPAC or to sell its interest only at a price below what the Fund believes is the SPAC interest's intrinsic value; (ix) the values of investments in SPACs may be highly volatile, a Fund may have little or no ability to hedge its exposure to a SPAC investment, and the value of a SPAC investment may depreciate significantly; (x) an investment in a SPAC may include potential conflicts and potential for misalignment of incentives in the structure of the SPAC; and (xi) the growth in SPAC offerings may increase competition for target companies and, as a result, contribute to a decline in deal quality.

*Cyber Security Risk* – With the increased use of technologies such as the Internet to conduct business, the Funds are potentially more susceptible to operational and information security risks through breaches in cybersecurity. In general, a breach in cybersecurity can result from either a

deliberate attack or an unintentional event. Cybersecurity breaches may involve, among other things, infection by computer viruses or other malicious software code or unauthorized access to the digital information systems, networks or devices of the Funds or their service providers (including, but not limited to, a Fund's investment adviser, transfer agent, custodian, administrators and other financial intermediaries) through "hacking" or other means, in each case for the purpose of misappropriating assets or sensitive information (including, for example, personal shareholder information), corrupting data or causing operational disruption or failures in the physical infrastructure or operating systems that support the Fund. Any such cybersecurity breaches or losses of service may cause the Funds to lose proprietary information, suffer data corruption or lose operational capacity, which, in turn, could cause the fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial loss. While the Funds and their service providers have established business continuity plans and risk management systems designed to prevent or reduce the impact of cybersecurity attacks, there are inherent limitations in such plans and systems due in part to the ever-changing nature of technology and cybersecurity attack tactics, and there is a possibility that certain risks have not been adequately identified or prepared for. Cybersecurity risks may also impact issuers of securities in which a Fund invests, which may cause such Fund's investments in such issuers to lose value.

*LIBOR Risk* – The London Interbank Offered Rate ("LIBOR") historically has been and currently is used extensively in the U.S. and globally as a "benchmark" or "reference rate" for various commercial and financial contracts, including corporate and municipal bonds, bank loans, asset-backed and mortgage-related securities, interest rate swaps and other derivatives. For example, debt instruments in which a Fund invests may pay interest at floating rates based on LIBOR or may be subject to interest caps or floors based on LIBOR. A Fund's derivative investments may also reference LIBOR. In addition, issuers of instruments in which a Fund invests may obtain financing at floating rates based on LIBOR, and a Fund may use leverage or borrowings based on LIBOR. In July 2017, the head of the United Kingdom Financial Conduct Authority announced the intention to phase out the use of LIBOR by the end of 2021. However, after subsequent announcements by the FCA, the LIBOR administrator and other regulators, certain of the most widely used LIBORs have been extended and are expected to continue until mid-2023. Currently, the U.S. and other countries are working to replace LIBOR with alternative reference rates. The transition effort in the U.S. is being led by the Alternative Reference Rate Committee (ARRC), a diverse group of market participants convened by the Federal Reserve. After much deliberation, ARRC selected the Secured Overnight Financing Rate ("SOFR") as the preferred LIBOR successor for U.S. dollar markets. SOFR is a volume-weighted median of borrowing rates from the Treasury repurchase agreement market. National working groups in other jurisdictions have similarly identified overnight nearly risk-free rates like SOFR as their preferred alternatives to LIBOR. Although the structured transition to the new rates is designed to mitigate the risks of disruption to financial markets, such risks exist. Abandonment of or modifications to LIBOR could lead to significant short- and long-term uncertainty and market instability. The risks associated with this discontinuation and transition may be exacerbated if the work necessary to effect an orderly transition to an alternative reference rate is not completed in a timely manner. It remains uncertain the effects such changes will have on the Funds, issuers of instruments in which the Funds invest, and the financial markets generally.

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

The above does not represent a complete discussion of all of the risks of investing in the Funds. Each Fund's Fund Documents include a discussion of the Fund's principal risks.

## **ITEM 9 - DISCIPLINARY INFORMATION**

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

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

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

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

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

- Ceredex Value Advisors LLC
- Duff & Phelps Investment Management Co.
- Kayne Anderson Rudnick Investment Management, LLC
- NFJ Investment Group, LLC
- Seix CLO Management LLC
- Silvant Capital Management LLC
- Stone Harbor Investment Partners (UK) LLP
- Stone Harbor Investment Partners Limited
- Sustainable Growth Advisers, LP
- Virtus Alternative Investment Advisers, Inc.
- Virtus ETF Advisers LLC

- Virtus Fixed Income Advisers, LLC
- Virtus Fund Advisers, LLC
- Virtus Global Partners PTE. LTD.
- Virtus Investment Advisers, Inc.
- Westchester Capital Partners, LLC

Westchester has been engaged by VIA to provide subadvisory services with respect to certain open-end funds managed by VIA (such funds, “Virtus Funds”), and additional relationships of that nature may be entered into by Westchester in the future. Westchester’s compensation for such arrangements is typically structured as a percentage of the overall management fee paid by the fund to the affiliated investment adviser.

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

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

Certain employees of VPD promote the services of Westchester as well as the products managed by Westchester. When Westchester pays a fee to VPD for the efforts of VPD’s employees to promote Westchester’s services, VPD is considered a solicitor for Westchester as discussed in Item 14 below.

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

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



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

### Code of Ethics

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

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

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

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

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

- They have no influence or control over the transaction from which they will acquire a beneficial interest;
- The transaction is non-volitional on their part or the client’s;
- The transaction is a purchase under an automatic dividend reinvestment plan or pursuant to the exercise of rights issues, pro-rata to them and other holders of the same class of the issuer’s securities; or

- They have obtained, in advance, approval from someone authorized to grant such approval when circumstances indicate no reasonable likelihood of harm to the client or violation of applicable laws and regulations.

### *Code of Conduct*

The Virtus Code of Conduct directs our employees' conduct in the following areas:

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

### *Code of Ethics*

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

All Supervised Persons are required to comply with the following:

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

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

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

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

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

#### *Other Related Policies and Procedures*

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

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

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

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

#### Participation or Interest in Client Transactions

Westchester and its affiliates act as investment adviser and/or subadviser to numerous client accounts, including Virtus Funds. Westchester may give advice and take action with respect to any funds or accounts it manages that may differ from action taken by Westchester on behalf of other funds or accounts. As these situations may represent a potential conflict of interest, Westchester has adopted restrictive policies and procedures, wherever deemed appropriate, to seek to detect and mitigate or prevent potential conflicts of interest. Westchester is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling, any security that Westchester, its affiliates or their respective Access Persons, as defined by the Investment Company Act of 1940, as amended, and by the Investment Advisers Act of 1940, as amended, may buy or sell for its or their own account or for the accounts of any other client. Westchester is not obligated to refrain from investing in securities held by Funds or accounts that it manages except to the extent that

such investments violate the Code adopted by Westchester. From time to time, Westchester, its officers and employees may have interests in securities owned by or recommended to Westchester's clients. This includes interests in funds that may invest directly or indirectly, in securities of issuers which Westchester or its affiliates may purchase. As these situations may represent a potential conflict of interest, Westchester has adopted procedures relating to personal securities transactions and insider trading, that are reasonably designed to prevent actual conflicts of interest.

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

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

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

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

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

## **ITEM 12 - BROKERAGE PRACTICES**

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

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

Westchester's Chief Compliance Officer, or his or her designee, meets periodically with investment personnel to review the performance of each selected broker-dealer, the services being

provided by the broker-dealer, and the fees being paid for those services to evaluate whether Westchester is satisfying its best execution obligations.

### Research and Other Soft-Dollar Benefits

Westchester and WCP may receive research or brokerage services other than execution from a broker-dealer or third party in connection with client securities transactions. These are known as “soft dollar” benefits. Westchester may cause the Funds to pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits if Westchester determines in good faith that such commissions are reasonable in relation to the value of brokerage, research and other services provided, either in terms of the particular transaction or Westchester’s overall responsibilities for accounts over which Westchester exercises investment discretion.

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

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

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

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

### Trade Aggregation

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

### Allocation of Investment Opportunities Among Funds

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

time such investments are made, however investments and their characteristics may change and there can be no assurance that an investment may prove to have been more suitable for another Fund in hindsight.

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

In addition, where more than one client of Westchester (or its affiliates), including a Fund, invests in the same investments, there can be no assurance that such parties will dispose of investments at the same time and on the same terms. Investments of different clients disposed of at different times will likely be disposed of at different valuations and, as a result, a Fund may realize different returns as compared to the same investment held by another client. These variations in timing may be detrimental to a Fund. At the same time, if Westchester determines it is advisable for a Fund to exit an investment at the same time as another client of Westchester or its affiliates, the term of which may expire sooner than the Fund's, such Fund may dispose of its interest earlier than it ordinarily would have and may, as a result, experience lower returns than it otherwise may have earned on such investments.

#### Initial Public Offerings (IPOs)

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

#### Cross Transactions

Westchester may engage in cross transactions with eligible advisory accounts and, if it does so, it will seek to comply with applicable disclosure and consent requirements associated with such transactions under the Investment Advisers Act of 1940. To reduce transaction costs and promote trading efficiency for its mutual fund clients, Westchester may engage in cross transactions consistent with procedures adopted pursuant to Rule 17a-7 under the Investment Company Act of 1940.

#### Error Correction

Although Westchester takes all reasonable steps to avoid errors in our trading process, occasionally errors do occur. It is our policy that trade errors be identified and resolved promptly and in a manner consistent with Westchester's fiduciary duty to its clients. Consistent with this duty, the overriding goal in trade-error resolution is to seek to place the client in the same position that the

client would have been in had the error not occurred. There is no single method of calculating gains, losses or compensation due as a result of a trade error. The determination of the method is highly dependent on the facts and circumstances of the error in question. Westchester will determine the most appropriate calculation methodology on a case-by-case basis in light of the specific facts and circumstances of each trade error.

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

Portfolio managers for each investment discipline determine the specific securities purchased or sold within a portfolio based on the investment discipline's philosophy and process, as well as the client's investment policy guidelines. Portfolio managers are thoroughly familiar with the client's organization, philosophy, investment guidelines and objectives and continually evaluate all client relationships and verify portfolios are continuously serviced, monitored and supervised.

Virtus' Investment Oversight Committee also provides investment oversight and analysis of Westchester activities, including performance attribution evaluation and analysis.

Specific client guidelines and restrictions are coded into the compliance guideline system (Bloomberg) upon account opening and periodically reviewed and updated as appropriate. The compliance guideline system is designed to screen individual transactions to prevent trade allocations to accounts that do not comply with specific client or Firm guidelines.

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

Westchester and certain of its personnel provide services to Westchester's affiliates, and Westchester receives services from its affiliates. Such services include investment advice for which the providing entity is compensated directly or indirectly by the receiving entity.

As discussed in Item 10, above, Westchester has arrangements with affiliates whereby Westchester compensates those entities for referrals in certain circumstances. Such arrangements are commonly referred to as "solicitation arrangements" and the persons or entities providing the solicitation services are commonly known as "solicitors." The Investment Advisers Act of 1940, as amended, requires that when an affiliate acts as a solicitor for Westchester such affiliate discloses to the potential client that the solicitor is affiliated with Westchester. The compensation paid by Westchester to affiliates for these solicitation arrangements generally is structured as being all or a portion of any variable compensation paid by the affiliate to its employee(s) relating to assets under management by Westchester that were referred by such employee(s), and in some cases the compensation also includes a percentage of affiliate's costs with respect to employment of the individual(s).

While Westchester currently does not compensate any unaffiliated third parties for client referrals, Westchester may have relationships with certain consulting firms and other intermediaries. For example, Westchester may, from time to time, purchase products or services, such as investment management performance data, from consulting firms. Westchester may, from time to time, pay a fee for inclusion of information about the firm in databases maintained by certain unaffiliated third party data providers that in turn make such information available to their investment consultant clients. The payments and benefits described in this paragraph could give the firms receiving them



and their personnel an incentive to favor Westchester's investment advisory services over those of firms that do not provide the same payments and benefits.

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

In addition, Westchester or any of its affiliates may enter into arrangements with, and/or make payments from their own assets to, certain intermediaries to enable access to Virtus Funds on platforms made available by such intermediaries or to assist such intermediaries to upgrade existing technology systems or implement new technology systems or programs in order to improve the methods through which the intermediary provides services to Westchester and its affiliates and/or their clients. Such arrangements or payments may establish contractual obligations on the part of such intermediary to provide Westchester's or an affiliate's fund clients with certain exclusive or preferred access to the use of the subject technology or programs or preferable placement on platforms operated by such intermediary. The services, arrangements and payments described in this paragraph present conflicts of interest because they provide incentives for intermediaries, customers or clients of intermediaries, or such customers' or clients' service providers to recommend, or otherwise make available, Westchester's or its affiliates' strategies or Virtus Funds to their clients in order to receive or continue to benefit from these arrangements from Westchester or its affiliates. The provision of these services, arrangements and payments described above by Westchester or its affiliates is only to the extent permitted by applicable law and guidance and is not dependent on the amount of Virtus Funds or strategies sold or recommended by such intermediaries, customers or clients of intermediaries, or such customers' or clients' service providers.

#### **ITEM 15 - CUSTODY**

Westchester does not have custody of client funds or securities.

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

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

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

Westchester has authority to vote client securities. Westchester has adopted Proxy and Corporate-Action Voting Policies and Procedures that govern the voting of proxies for securities held by the Funds. Clients cannot direct Westchester how to vote in a particular solicitation. Westchester has full authority to vote proxies or act with respect to other shareholder actions on behalf of the Funds. Westchester's primary consideration in voting proxies is the best interest of the Funds. The proxy-voting procedures address the resolution of potential conflicts of interest and circumstances under

which Westchester will limit its role in voting proxies. Where a proxy proposal raises a material conflict between Westchester's interests and a Fund's interests, Westchester will resolve the conflict by following the policy guidelines.

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

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

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

Virtus Mutual Fund shareholders:

Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ending June 30 will be available free of charge by calling, toll-free, 888-784-3863, or on the SEC's Web site at [www.sec.gov](http://www.sec.gov).

## **ITEM 18 - FINANCIAL INFORMATION**

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