Fellow shareholders,

November was a clandestinely significant month that will have short and long-term implications for merger arbitrage investors. The Department of Justice ("DOJ") filed a lawsuit mid-month to block AT&T's efforts to acquire Time Warner – which is a top 5 holding in our funds. Although the suit garnered abundant news coverage, a subplot was largely overlooked by many in the media.

The AT&T – Time Warner deal is a classic "vertical merger" in that the two companies do not compete with each other, as opposed to a "horizontal merger," where the parties compete in the same markets. Time Warner is a content company and AT&T is a distributor of content. The crux of the dispute is the government's contention that the merger would give a single company too much control over distribution and content of media. Their contention is that it is likely that AT&T would charge a premium for or restrict access to rival distribution companies for content they will then own, such as HBO, Turner Sports, and other popular programs.

The DOJ's filing suggests a sea change in the government's view of vertical mergers, which for decades have been routinely approved because they often benefit consumers. It is the first suit against a vertical merger since 1977, and the government has not won such a suit since 1962.

Not surprisingly, AT&T Chief Executive Randall Stephenson commented that the suit "defies logic" and we tend to agree. In fact, we believe the AT&T – Time Warner transaction is more likely than not to be completed-- either through a settlement or a court victory. A trial date is set for March 19, 2018, so the resolution will probably extend well into 2018.

This lawsuit will also have ramifications for other major transactions. In particular, it may inject uncertainty into other primarily vertical deals such as CVS's acquisition of Aetna; Bayer's acquisition of Monsanto, and even Northrop Lockheed's intended acquisition of Orbital ATK, Inc. Given the more than 40 years of precedent, vertical consolidation issues have not been a significant factor in evaluating mergers' likelihood of completion. However, we will now have to more closely scrutinize vertical competitive issues in announced transactions pending further clarification. Counterintuitively, the government would argue that a company which improves its bargaining power through an acquisition would gain an unfair advantage that hurts competition, *regardless* of whether it uses its leverage to benefit consumers and lower prices. In the case of AT&T – Time Warner, it seems nonsensical to us that AT&T would restrict access to Time Warner content at the expense of sizeable licensing revenue. The company will clearly want to expand distribution by selling its content through as many dissemination channels as possible, thereby receiving the revenue and consumer market data that accompany it. AT&T maintains that market forces will continue to set the pricing, as there is no change to the number of competitors.

A shorter-term effect of the lawsuit may be a brief slowdown in deal-making, particularly for larger "mega-deals," pending resolution of this matter.

Longer-term, our outlook for deal activity remains optimistic and certain aspects of tax reform, including tax amnesty for repatriated funds, should be a boon to M&A. We'll discuss the tax bill, developments in the AT&T – Time Warner deal and our overall 2018 outlook in our Q4 shareholder letter.

In the meantime, as discussed previously, although we experienced negative November marks-to-market in two of our larger positions - Time Warner and NXP Semiconductor- we are off to a good start in December. As of December 12, we have already recouped more than half of the November drawdown and are almost flat on the quarter. This is despite Time Warner trading at almost a $15 discount (17% gross spread!) to the current cash and stock deal consideration.

Would be happy to answer any further questions our investors may have.

Roy Behren

Mike Shannon

IMPORTANT DISCLOSURES

Before investing in any fund, carefully consider the investment objectives, risks, charges, and expenses. For a prospectus or summary prospectus containing this and other fund information, please call (800) 343-8959. Please read the prospectus carefully before investing.

The performance data quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original costs. Current performance may be lower or higher than the performance quoted. Click here for most recent standardized performance information.

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

Fund holdings and asset allocation are subject to change at any time and are not recommendations to buy or sell any security. The Ten Largest Positions as a Percent of Net Assets for The Merger Fund® as of September 30, 2017, were: Altaba Inc. (10.52), Time Warner Inc. (8.76), NXP Semiconductors NV (6.86), C.R. Bard, Inc. (6.09), Sky PLC (4.30), Worldpay Group PLC (4.27), Rice Energy Inc. (3.34), Huntsman Corporation (3.29), DowDuPont Inc. (2.91), The Advisory Board Company (2.36). The Ten Largest Positions as a Percent of Net Assets for The Merger Fund VL as of September 30, 2017, were: T Altaba Inc. (10.50), Time Warner Inc. (8.78), NXP Semiconductors NV (6.53), C.R. Bard, Inc. (5.88), Worldpay Group PLC (4.24), Sky PLC (4.18), Rice Energy Inc. (3.35), Huntsman Corporation (3.14), DowDuPont Inc. (2.90), American International Group, Inc. (2.63). The Ten Largest Positions as a Percent of Net Assets for WCM Alternatives Event-Driven Fund as of September 30, 2017, were: Altaba Inc. (10.10), Time Warner Inc. (9.92), NXP Semiconductors NV (6.80), DowDuPont Inc. (6.35), Worldpay Group PLC (5.92), Sky PLC (5.77), C.R. Bard, Inc. (5.75), Hewlett Packard Enterprise Company (3.97), CBS Corporation (3.95), American International Group, Inc. (3.81).

The views expressed are as of December 12, 2017, and are a general guide to the views of Westchester Capital Management, are subject to change, are not guaranteed and should not be considered recommendations to buy or sell any security. This document does not replace portfolio and fund-specific materials.

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