



2017

# Q4 Quarterly Review

	Share class	Ticker	Morningstar Category	OVERALL Morningstar Rating™
The Merger Fund®	Institutional	MERIX	Market Neutral NE	 Out of 118 market neutral funds as of 12/31/2017
	Investor	MERFX		 Out of 118 market neutral funds as of 12/31/2017
The Merger Fund VL	Insurance Dedicated Fund	MERVX	Market Neutral NE	
Credit Event Fund	Institutional	WCFIX	Long-Short Credit	
	Investor	WCFRX		
Event-Driven Fund	Institutional	WCEIX	Multi-Alternative	 Out of 286 multi-alternative funds as of 12/31/2017
	Investor	WCERX		 Out of 286 multi-alternative funds as of 12/31/2017

The Overall Morningstar Rating is derived from a weighted average of the Fund's 3-, 5-, and 10-year Morningstar Rating metrics.

Shareholder Services: U.S. Bancorp Fund Services, LLC  
P.O. Box 701 ■ Milwaukee ■ Wisconsin 53201  
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Investment Adviser: Westchester Capital Management, LLC  
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**STANDARDIZED PERFORMANCE SUMMARY**

As of December 31, 2017

## Strategy Assets:

Merger Arbitrage <sup>1</sup>	\$2.5 billion
Opportunistic Credit	\$2.7 million
Multi-Event <sup>2</sup>	\$346.9 million

	Average Annual Total Return (%)						Annual Operating Expense Ratio (%) <sup>3</sup>			Performance Inception	Ticker
	QTD	YTD	1 YR	5 YR	10 YR	Life	Gross Expense Ratio	Net Expense Ratio <sup>3</sup>	Net Expenses excluding Investment-Related Expenses <sup>4,5</sup>		
<b>Merger Arbitrage</b>											
The Merger Fund (Institutional)	0.04	2.74	2.74	n/a	n/a	2.03	1.79%	1.68%	1.07%	08/01/2013	MERIX
The Merger Fund (Investor)	-0.04	2.39	2.39	1.83	2.38	6.05	2.12%	2.01%	1.40%	01/31/1989	MERFX
<b>Insurance Dedicated Funds<sup>5</sup></b>											
The Merger Fund VL	0.09	2.56	2.56	1.86	3.31	4.53	2.85%	2.09%	1.40%	05/26/2004	MERVX
<b>Opportunistic Credit<sup>5</sup></b>											
Credit Event Fund (Institutional)	n/a	n/a	n/a	n/a	n/a	n/a	2.30%	1.88%	1.64%	12/29/2017	WCFIX
Credit Event Fund (Investor)	n/a	n/a	n/a	n/a	n/a	n/a	2.55%	2.13%	1.89%	12/29/2017	WCFRX
<b>Multi-Event<sup>5</sup></b>											
Event-Driven Fund (Institutional)	0.52	4.72	4.72	n/a	n/a	2.31	2.54%	2.53%	1.74%	01/02/2014	WCEIX
Event-Driven Fund (Investor)	0.52	3.77*	n/a	n/a	n/a	3.77	2.79%	2.78%	1.99%	03/22/2017	WCERX

\* Partial year

MARKET INDICES	QTD	YTD	1 YR	5 YR	10 YR
US Fund Market Neutral	0.81%	2.48%	2.48%	1.48%	0.33%
US Fund Multialternative	1.74%	5.68%	5.68%	1.71%	0.62%
Wilshire Liq Alt Event Driven TR USD	0.31%	2.79%	2.79%	0.77%	2.18%
S&P 500 TR USD (1936)	6.64%	21.83%	21.83%	15.79%	8.50%
BBgBarc US Agg Bond TR USD	0.39%	3.54%	3.54%	2.10%	4.01%
ICE BofAML 3M US Trsy Note TR USD	0.28%	0.86%	0.86%	0.27%	0.39%

QTD and YTD performance is not annualized. Performance data quoted represent past performance; past performance does not guarantee future results. The performance results portrayed herein reflect the reinvestment of all interest, dividends and distributions. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Funds may be lower or higher than the performance quoted. Performance data included herein for periods prior to 2011 reflect that of Westchester Capital Management, Inc., the Funds' prior investment advisor. Messrs. Behren and Shannon, the Funds' current portfolio managers, have served as co-portfolio managers of the Funds since 2007. Performance data current to the most recent month-end may be obtained by calling (800) 343-8959 or by visiting [www.westchestercapitalfunds.com](http://www.westchestercapitalfunds.com).

<sup>1</sup>Includes USD 53 million in private funds advised by Westchester Capital Management, LLC's affiliated investment advisor and USD 132 million in a sub-advised fund. <sup>2</sup>Includes USD 247 million in sub-advised funds. <sup>3</sup>Net expense ratios are as of a fund's most recent prospectus and were applicable to investors. <sup>4</sup>Investment related expenses include expenses related to short sales and interest on any borrowing and acquired fund fees and expenses. <sup>5</sup>The Adviser has contractually agreed to waive a portion of its investment advisory fee through April 30, 2018 for The Merger Fund, The Merger Fund VL, and WCM Alternatives: Event-Driven Fund, and through November 16, 2018 for WCM Alternatives: Credit Event Fund.

Fellow Shareholders,

The Merger Fund<sup>®</sup> (MERIX) advanced by 0.04% during the fourth quarter, slightly behind the hedge-fund-heavy HFR Merger Arbitrage Index, which was up 0.49% during the period. However, we outperformed the HFR assemblage by over half a percent for the full calendar year, adding 2.74% vs. the index's 2.23%. The Merger Fund<sup>®</sup> was quite tax-conscious this year as well. Despite the gains, the Fund paid a taxable distribution of approximately only 1%, all of which qualified for the lower-assessed QDI (qualified dividend income) treatment. Additionally, due to loss harvesting and other factors, we have retained a loss carry-forward of approximately \$42.3mm, or about \$0.29 per current share count, which as of now should shelter the next 2% of capital gains.

Fixed income comps began to fade later in the year, with the Bloomberg Barclays US Aggregate Bond Index and 3-month Treasury Bills tacking on 3.54% and 0.86% for the year, respectively. The postscript to this paragraph is that as of the writing of this letter, interest rates have moved up and corporate transaction activity has kicked into high gear. This has helped our results and hurt fixed-income investments in general. To wit, through January 31, The Merger Fund<sup>®</sup> (MERIX) is up 1.58% and the WCM Alternatives: Event-Driven Fund is up 1.77% vs. the Bloomberg Barclays US Aggregate Bond Index which is down 1.15% while T-Bills are up 0.12%, reflecting the expected negative correlation of absolute return products and interest rates.

Both our correlation and volatility continued to track below that of our peer indices as defined by Morningstar. The Merger Fund<sup>®</sup> once again exhibited roughly one-fifth the "risk" (volatility) of the S&P 500 Index<sup>1</sup> and the beta correlation similarly remained at approximately 0.2 as of December 31.

As mentioned above, fixed income markets have begun to suffer from continued Federal Reserve tapering and rising rates. We have reiterated (ad nauseum) that our funds' negative correlation with bond prices (our three year beta to the Bloomberg Barclays Aggregate Bond Index is -0.18) should prove helpful when rates rise, which is typically bad for bonds. As a result, Fund inflows have increased according to feedback from fixed income investors repositioning their portfolios to include non-or negatively-correlated investments. Correspondingly, we have observed that many advisers have modified the standard 60/40 portfolio (60% equities, 40% fixed income) to add 20% in liquid alternatives as a diversifier, for a new formulation of 50/30/20.

Although many investors questioned the ability of the markets to continue its 7-year rebound from the financial crisis, equities tracked the country's continued economic recovery and continued to climb on hopes that President Trump's policies would ignite business activity. All four equity indices closed the year strongly, as the S&P 500, Dow Jones Industrial Average, NASDAQ Composite and the Russell 2000 all finished the year at record or multi-year highs. ETF and passive fund inflow no doubt exacerbated the strength, as more than \$465 billion flowed into U.S.-listed ETFs alone, shattering last year's \$287 billion record.

### **Business Climate**

As markets powered ahead globally, merger and acquisition ("M&A") activity ramped upwards as well. In fact, for a record third year in a row, more than 50,000 M&A deals were announced worldwide, this year totaling \$3.54 trillion in value.<sup>2</sup> Worldwide composition changed, as a 16% year-over-year drop in domestic M&A was offset by a 16% rise in European M&A and an 11% rise in Asia-Pacific activity. Individual deal values slipped a bit in 2017 as "megadeals" greater than \$5 billion in market capitalization dipped but have picked up again to start 2018. Factors such as historically high corporate cash balances, the second-longest bull market on record, readily available debt financing, and now access to repatriated overseas cash all contributed to the conducive environment.

<sup>1</sup> Three-year trailing standard deviation for The Merger Fund<sup>®</sup> was 2.65% versus 12.47% for the S&P 500 Index

<sup>2</sup> CEOs go M&A hunting as booming markets unleash deal making spirits, Reuters, December 28, 2017

President Trump's new administration has had a tremendous impact on the financial world. His regulatory appointments have been perceived as pro-free-market, and his spending policies have been clearly stimulative. Most importantly, tax reform has unleashed massive corporate spending capacity.

However, the jury is still out on the Administration's expected regulatory hands-off policy. Approvals are taking longer than in the past due to increased regulatory complexity and scrutiny. Once again, the excellent work done by Evren Ergin of UBS highlighted that in 2017, deals with Hart Scott-Rodino antitrust approvals took on average almost 260 days to close, more than two standard deviations greater than the historical average of 195 days. This may be partly due to the increased

internationalization of transaction activity, with the frequency of required approvals by the Committee on Foreign Investment in the U.S. and China's Ministry of Competition have risen markedly in the past several years.

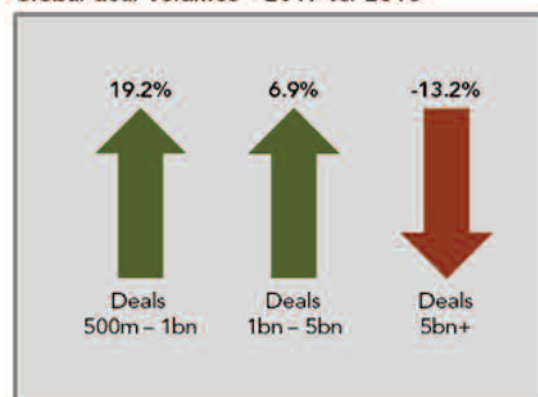
Additionally, as we wrote in December, the Department of Justice ("DOJ") injected uncertainty into expectations of the government's approval posture when it filed a lawsuit to block the AT&T – Time Warner merger, ostensibly a merger of two companies who do not compete with each other in any market. Such transactions, called vertical mergers, have not been challenged by the government since 1977, with the last DOJ victory back in 1962. We would be happy to discuss this suit and its implications in more detail with any interested investor.

The lawsuit was significant for arbitrage, event-driven and even fundamental investors, as its announcement sent ripples through the market, and a government victory could deter other executives from pursuing these types of transactions. Although the suit impacted our portfolios, causing negative marks-to-market in a number of unrelated transactions, arbitrage spreads in general widened as a result and we opportunistically deployed tens of millions of dollars in attractive opportunities. Currently, we are at our highest level of investment in several years. Deal flow is robust and the average risk-reward profile has improved along with modest spread widening due to the early uptick in interest rates. As occasionally occurs, our decision to proactively add to positions has rewarded our investors with enhanced performance. Since our shareholder communication on December 12, when the lawsuit was filed, The Merger Fund<sup>®</sup> and WCM Alternatives: Event-Driven Fund, Institutional, have returned 1.81% and 2.20% respectively.

The Deloitte M&A trends report, which includes a survey of more than 1,000 executives at corporations and private equity firms regarding the current year and future expectations, points to strong deal activity ahead. According to the report, "nearly 70 percent of executives at US-headquartered corporations and 76 percent of leaders at domestic-based private equity firms expect deal flow to increase over the next 12 months." Further, there is a virtually unanimous sentiment that average deal size will increase compared to 2017. Of particular note, survey results identified technology acquisition and digital strategy as primary drivers of future merger activity.<sup>3</sup>

Although uncertainty over tax reform dampened activity in 2017, its passage appears to have greased the skids for a slew of transactions. Just three weeks into 2018, over \$152 billion of new deals have been announced, the highest rate since the technology bubble of 2000<sup>4</sup>. Since the dissemination of the GOP tax bill, highlights include Broadcom's \$103 billion hostile offer for Qualcomm; CVS' \$69 billion agreement to buy insurer Aetna; Walt Disney's \$52 billion deal to buy film and TV business from 21st Century Fox, and United Technologies' \$30 billion

Global deal volumes – 2017 vs. 2016



Allen & Overy | M&A Insights | Q4 2017

<sup>3</sup> Deloitte 2018 M&A Trends Report

<sup>4</sup> Dealmakers Are Off to Hottest Start of the Year Since 2000, Bloomberg, January 23, 2018

purchase of avionics maker Rockwell Collins. Rounding out the list was AIG's \$6 billion purchase of British reinsurer Validus and Celgene's 91% premium transaction with cancer researcher Juno Therapeutics Inc. Many of the new transactions will be funded with money held offshore by domestic companies that can now repatriate those funds at a significantly lower tax rate than previously. The new tax code requires corporations to pay a one-time tax of 8%-15.5% on foreign earnings held overseas and it must be paid whether the funds are brought back to the US or not. This effectively eliminates the incentive for companies to keep cash offshore to defer taxes on offshore earnings, explained Manal Corwin of KPMG to the Los Angeles Times<sup>5</sup>. We expect this influx of cash to continue to fuel deal activity 2018.

### **Portfolio Highlights**

The Merger Fund<sup>®</sup> held 79 investments during the quarter and experienced no terminated deals. Reflecting a greater than 3:1 ratio of winners to losers, 60 positions posted positive gains while 19 had negative mark-to-market. We invested in 22 new situations during the quarter, and as of the end of December we held 63 positions and were approximately 100% invested.

### **Winners**

- The Altaba stub (Altaba's remaining assets in excess of its significant holdings in Alibaba and Yahoo Japan) was our biggest winner in 4Q. The position was an excellent vehicle to profit from U.S. tax reform. For most of the year, it appeared that the market was putting almost no probability of either a meaningful reduction in the corporate tax rate or a tax-efficient monetization of the company's Alibaba stake. The remainder, known as the stub, rallied on the tax bill passage, reducing the maximum potential tax liability of a stake sale from a mid-30s percentage tax rate to a low-20s percentage tax rate. The risk-reward still appears attractive as the company can continue to buy back its shares at 25-27% discount to the value of its holdings while pursuing a deal with Alibaba to reduce the discount further.
- Our Sky PLC position rallied after FOX agreed to make significant assets sales to Disney, including Fox's stake in Sky. The previously planned Fox purchase of Sky should proceed as planned and is targeted to close sometime mid-year. While it is unclear what impact this asset sale might have on UK regulatory scrutiny of the Fox-Sky deal, Disney's purchase reassured the market of Sky's intrinsic value.
- NXP – Qualcomm: NXP shares have been trading above Qualcomm's offer price, as many NXP shareholders, including hedge fund Elliott Management Corp., have been holding out for a better price. Qualcomm need not decide whether to raise its offer until it receives antitrust clearance from the remaining worldwide regulators reviewing the deal, which is expected in Q1 2018. Meanwhile, Qualcomm is fending off a hostile offer from Broadcom. Broadcom said it was interested in acquiring Qualcomm with or without completion of the NXP deal.

### **Losers**

- AT&T and Time Warner announced their \$85 billion merger last year, but the closing has been dragged out by the government's antitrust review. The DOJ alleges in its lawsuit that the combination would stifle competition and innovation and raise prices for consumers. AT&T says it sees no reason for its merger to be treated differently than other vertical mergers and decades of antitrust precedent. The Court is expected to rule as soon as the second quarter of 2018 unless there is an earlier settlement among the parties.
- Monsanto – Bayer: After months of negotiations, St. Louis-based Monsanto Co. accepted an offer from Germany-based Bayer AG in September 2017 in a \$66 billion enterprise value transaction. The transaction combines two of the six U.S. and European companies that dominate the agrochemical market and would

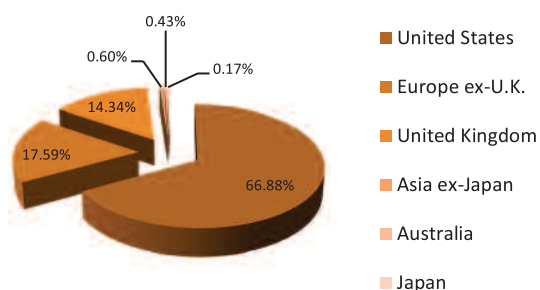
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<sup>5</sup> As firms bring back cash to the U.S., some see a fresh wave of mergers , LA Times, January 15, 2018

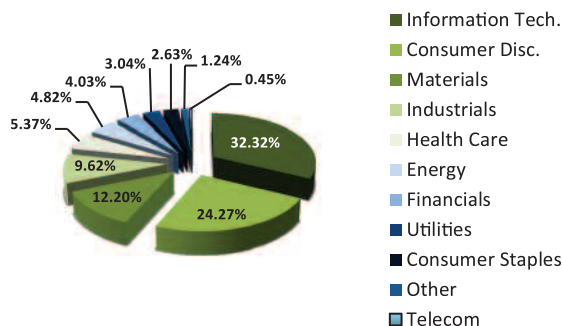
create a global agricultural and chemical giant with a broad array of products. In early October, European Commission-Competition delayed the Jan. 22, 2018 deadline for approval so that the companies can gather additional requested information. The new deadline for the Commission to decide over the deal is now March 5, 2018. As with NXPI, and arguably Time Warner as well, Monsanto has increased in value during the pendency of the transaction and has also benefited from tax reform, so the downside in the event of deal termination has been reduced significantly.

**Statistical Summary**

**REGIONAL EXPOSURE**



**SECTOR EXPOSURE**



Type of Buyer	
Strategic	99.23%
Financial	0.77%

By Deal Type	
Friendly	99.76%
Hostile	0.24%

Deal Terms	
Cash	39.09%
Stock & Stub	20.10%
Cash & Stock	17.43%
Stock with Flexible Exchange Ratio (Collar)	17.21%
Stock with Fixed Exchange Ratio	3.56%
Undetermined*	2.62%

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

**Event-Driven Activity**

Event-driven funds have a broader mandate than pure merger arbitrage, and the tradeoff is that the risk-reward profile is more magnified. There exists the potential for greater returns with greater volatility. There is a larger range of investments to choose from, but they do not necessarily have the natural market neutrality that a merger arbitrage investment may have. As an economic cycle ages, the variety of investment opportunities will change. If merger activity were to wane, other types of transactions such as corporate restructurings, asset sales, and bankruptcy reorganizations would take its place. Opportunities in post-bankruptcy emergences and capital structure arbitrage arise as well. Corporate funding and litigation events may even become more common. However, selective merger arbitrage will continue to be at the core of an uncorrelated market neutral event-driven portfolio. As discussed above, the current economic environment is conducive to merger activity, and both the volume and quality of deals make it appropriate for the WCM Alternatives: Event-Driven Fund to continue to hold significant investments in mergers and acquisitions.

*Performance data quoted represents past performance; past performance does not guarantee future results.*

Among 2017's biggest acquisitions, represented in both our merger arbitrage and event-driven portfolios were U.S. drugstore chain operator CVS Health Corp.'s (CVS.N) \$69 billion agreement to buy health insurer Aetna Inc.; Walt Disney Co.'s \$52 billion deal to buy film and television businesses from Rupert Murdoch's Twenty-First Century Fox Inc.; and aerospace supplier United Technologies Corp.'s \$30 billion agreement to buy avionics maker Rockwell Collins Inc. Many of these deals had stock as part of the purchase price, with acquirers emboldened to use their own shares as currency given their high stock market valuations, as opposed to offering just cash. However, there were also a number of attractive non-merger related investments which were accretive to the portfolio such as Europe-based Atlas Copco, the bonds of GenOn Energy Inc., and the split up of automobile technology company Delphi.

Following the path of other European and U.S. industrials that have created shareholder value through spin-offs, Atlas Copco announced that it would be spinning off its mining and rock excavation business (Epiroc) in early 2018.

The Epiroc business represents approximately 30% of the Atlas' sales and is set to capitalize on the global uptick in mining cap-x spending. Epiroc and the less cyclical compressor business should be more attractive to investors as separate companies. We believe both companies will be well positioned to return capital to shareholders or use their currencies to consolidate other sector participants.

GenOn Energy Inc. is an independent power producer with multiple power plant assets. It is currently in Chapter 11 and is liquidating its assets in a court-approved auction process. Under the restructuring plan that has been approved by the bankruptcy court, the GenOn bonds that we own are at the highest secured level and will accrue 9% interest (paid monthly) during the liquidation process. We expect the GenOn liquidation to be completed and bond principal returned prior to the summer of 2018. This is an attractive investment with a calculable terminal value, exit strategy, and time frame.

Automotive equipment manager Delphi Technologies spun off its powertrain business on December 5th and renamed the remaining company Aptiv. Aptiv focuses on Electric/Electronic Architecture and Electronics and Safety. The investment thesis rests upon the removal of the parent's conglomerate discount, and that as a separate listing Aptiv would be valued as a less cyclical yet higher growth company, with additional cache because of its important role in developing the "connected car."

### Portfolio Performance Summary

Strategy	Allocations
Arbitrage	64.08%
Special Situations	14.92%
Restructurings	11.33%
Credit-Catalyst Opportunities	9.67%
Total	100.00%

*Strategy allocations result from our bottom-up process; our investment decisions are based on the unique characteristics of each opportunity. Every investment is based on disseminated information rather than speculation, has a defined timeline and calculable expected return. The strategy is designed to "go where the events are." We do not proactively weight the portfolio according to defined allocations to macro-factors such as strategy, sector and even country.*

The WCM Alternatives: Event-Driven Fund (WCEIX) returned 0.52% for the quarter, which brought calendar-year 2017 performance to 4.72%. As mentioned above, the Fund is up 1.77% in 2018 thus far, and its trailing 1-year performance is 5.61%. The Fund participated in 121 events throughout the quarter, 92 positions posted gains versus 29 with negative marks-to-market. We entered into 27 new positions and suffered no terminated transactions. As of December 31, the Fund held 100 positions and was fully invested.

**OUR COMPANY**

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

Account	Vehicle	Strategy	Inception
The Merger Fund®	SEC '40-Act Fund	Merger Arbitrage	1989
Institutional Share Class (MERIX)			2013
Investor Share Class (MERFX)			1989
The Merger Fund VL (MERVX)	Variable Insurance Trust	Merger Arbitrage	2004
WCM Alternatives: Credit Event Fund <i>New</i>	SEC '40-Act Fund	Opportunistic Credit	2017
Institutional Share Class (WCFIX)			2017
Investor Share Class (WCFRX)			2017
WCM Alternatives: Event-Driven Fund	SEC '40-Act Fund	Event-Driven	2014
Institutional Share Class (WCEIX)			2014
Investor Share Class (WCERX)			2017
JNL/Westchester Capital Event Driven Fund	Sub-advised SEC '40-Act Fund	Event-Driven	2015
Westchester Merger Arbitrage Strategy of the JNL Multi-Manager Alternative Fund	Sub-advised SEC '40-Act Fund	Merger Arbitrage	2016

Westchester Capital Management is also pleased to announce the launch of the WCM Alternatives: Credit Event Fund as of December 29, 2017. As noted in prior letters, many investors have requested such a vehicle, which aims to provide a regular income stream in the form of monthly distributions, yet will target an absolute return profile through investment in catalyst-driven fixed income instruments or securities with a similar profile. It will have differentiated exposure but will have higher targeted return and volatility levels than The Merger Fund®. We view this as a natural extension of our business model of providing dependable, liquid, alternative investment products to investors wishing to diversify their portfolio of otherwise correlated investments.

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



Roy Behren



Mike Shannon



## IMPORTANT DISCLOSURES

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

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

Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security. The Ten Largest Positions as a Percent of Net Assets for The Merger Fund<sup>®</sup> as of December 31, 2017, were: Altaba Inc. (11.74%), Time Warner Inc. (11.07%), NXP Semiconductors NV (8.34%), Worldpay Group PLC (5.69%), DowDuPont Inc. (4.78%), Sky PLC (4.28%), Rockwell Collins Inc. (3.61%), Abertis Infraestructuras S.A. (3.33%), Scripps Networks Interactive Inc. (3.33%), Monsanto Company (2.94%). The Ten Largest Positions as a Percent of Net Assets for The Merger Fund VL as of December 31, 2017, were: Altaba Inc. (11.76%), Time Warner Inc. (10.64%), NXP Semiconductors NV (8.13%), Worldpay Group PLC (5.31%), DowDuPont Inc. (4.76%), Sky PLC (4.20%), Rockwell Collins, Inc. (3.43%), Scripps Networks Interactive Inc. (3.30%), Abertis Infraestructuras S.A. (3.25%), Monsanto Company (2.82%). The Ten Largest Positions as a Percent of Net Assets for WCM Alternatives: Event-Driven Fund as of December 31, 2017, were: Altaba Inc. (11.52%), Time Warner Inc. (10.89%), DowDuPont Inc. (7.97%), NXP Semiconductors NV (7.83%), Worldpay Group PLC (7.67%), Sky PLC (5.86%), American International Group, Inc. (4.37%), CBS Corporation (4.30%), Monsanto Company (3.95%), GenOn Americas Generation LLC (3.78%). The WCM Alternatives: Credit Event Fund did not hold any of the securities mentioned.

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

Mutual fund investing involves risk. Principal loss is possible. Merger-arbitrage and event-driven investing 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. Investments in lower rated and non-rated securities present a great risk of loss to principal and interest than higher rated securities. The WCM Alternatives: Credit Event Fund is non-diversified and therefore has a greater potential to realize losses upon the occurrence of adverse events affecting an issuer in its portfolio.

*Performance data quoted represents past performance; past performance does not guarantee future results.*

Any tax or legal information provided is merely a summary of our understanding and interpretation of some of the current income tax regulations and is not exhaustive. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. Neither the Funds' nor any of their representatives may give legal or tax advice.

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The Morningstar Rating™ for funds, or “star rating”, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, and the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receives 1 star. The Overall Morningstar Rating™ for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating™ metrics.

The weights are 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. As of December 31, 2017, The Merger Fund® was rated against the following numbers of U.S.-domiciled Market Neutral funds over the following time periods: 118 funds in the last three years, 83 funds in the last five years, and 33 funds in the last ten years. With respect to these Market Neutral funds, The Merger Fund® – Investor share class received a Morningstar Rating of 3 stars, 3 stars and 3 stars for the three-, five- and ten-year periods, respectively. The Merger Fund® – Institutional share class received a Morningstar rating of 3 stars, 4 stars and 4 stars for the three-, five- and ten-year periods, respectively. Five and ten-year ratings are Extended Performance Ratings computed by Morningstar using historical adjusted returns prior to the 8/1/2013 inception date of the MERIX Institutional shares and reflect the historical performance of the MERFX class, (inception date 1/31/1989), adjusted to reflect the fees and expenses of the Institutional shares. As of December 31, 2017, WCM Alternatives: Event-Driven Fund was rated against the following numbers of U.S.-domiciled Multi Alternative funds over the following time periods: 286 funds in the last three years. With respect to these Market Neutral funds, WCM Alternatives: Event-Driven Fund – Institutional share class received a Morningstar rating of 3 stars for the three year period. WCM Alternatives: Event-Driven Fund – Investor share class received a Morningstar Rating of 3 stars for the three year period. 3-year ratings are Extended Performance Ratings computed by Morningstar using historical adjusted returns prior to the 3/22/2017 inception date of the WCERX Investor shares and reflect the historical performance of the WCEIX share class, (inception date 1/2/2014), adjusted to reflect the fees and expenses of the Investor shares. © 2017 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

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

Definitions: **The S&P 500 Index** is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general; **The Bloomberg Barclays Aggregate Bond Index** is an intermediate-term index comprised of investment grade bonds. **The Morningstar Category: US Fund Market Neutral** is comprised of a universe of funds with similar investment objectives. **The Morningstar Category: The US Fund MultiAlternative** encompasses funds that have a majority of their assets exposed to alternative strategies and include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes. **The ICE BofA Merrill Lynch US 3-Month Treasury Bill Index** is comprised of a single issue purchased at the beginning of the month and held for a full month. **The Nasdaq Stock Market Index** is an American stock exchange. It is the second-largest exchange in the world by market capitalization, behind only the New York Stock Exchange. **The Dow Jones Industrial Average, also called DJIA**, is a stock market index that shows how 30 large publicly owned companies based in the United States have traded during a standard trading session. Indices are unavailable for direct investment. **The Russell 2000 Index** is a market capitalization-weighted benchmark index made up of the 2000 smallest US companies in the Russell 3000. **The Wilshire Liquid Alternative Event Driven Index<sup>SM</sup>** measures the performance of the event-driven strategy component of The Wilshire Liquid Alternative Index<sup>SM</sup>. Event-driven strategies predominantly invest in companies involved in corporate transactions such as mergers, restructuring, distressed, buy-backs, or other capital structure changes. The Wilshire Liquid Alternative Event Driven Index (WLIQAED) is designed to provide a broad measure of the liquid alternative event-driven market. **Standard Deviation** is the degree to which returns vary relative to the average return. The higher the standard deviation, the greater the variability of the investment. **Beta** is a measure of the fund's sensitivity to market movements. A portfolio with a beta greater than 1 is more volatile than the market and a portfolio with a beta less than 1 is less volatile than the market. **Correlation** is calculated using R-Squared; which is a measure that represents the percentage of a fund's movements that can be explained by movements in a benchmark index. A fund with low R-squared doesn't act much like the index. **The Hart-Scott-Rodino Antitrust Improvements Act of 1976** was adopted to provide the Federal government with the opportunity to review the potential effects on competition of certain mergers, acquisitions or other consolidations that meet the Act's size and other tests before such transactions are completed. Once all parties to a transaction submit completed filings and pay the filing fee (generally \$45,000 per transaction imposed upon the acquiring person), there is a 30 day waiting period before the transaction may be completed. **Qualified Dividend Income**, as defined by the United States Internal Revenue Code, are ordinary dividends that meet specific criteria to be taxed at the lower long-term capital gains tax rate rather than at higher tax rate for an individual's ordinary income. The rates on qualified dividends range

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from 0 to 23.8%. **Loss carryforward** refers to an accounting technique that applies the current year's net operating losses to future years' profits to reduce tax liability and track profits accurately. **Tax loss harvesting** is the practice of selling a security that has experienced a loss. By realizing, or "harvesting" a loss, investors are able to offset taxes on both gains and income. The sold security is replaced by a similar one, maintaining an optimal asset allocation and expected returns.

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

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