

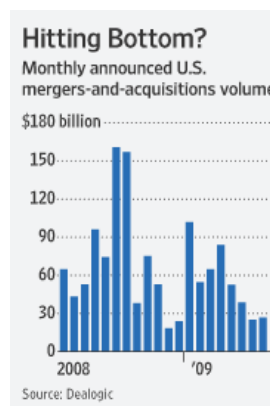


The Arbitrage Fund (ARBNX, ARBFX) Long/Short Strategy...With A Purpose

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The current economic environment may force some company managements to embrace strategic alternatives from the business models which were in place prior to when the crisis started. Due to lethargic economic conditions and the lack of visibility, some companies may seek to identify alternatives to organic growth. For example, companies may consider internal restructuring, divestment of non-performing business lines, merging with other companies or acquisitions of or by other companies.

These deals, particularly when they are between companies that are seeking shareholder-friendly terms, can create a more compelling business model as a combined venture than they do as two stand-alone companies. Typically, when a company publicly announces its' intentions to purchase another organization, the stock price of the purchasing company will decrease while the stock price of the company being purchased will increase.



Disclaimers: Past performance is no guarantee of future results. Information provided in this report is for informational purposes only. This investment may not be suitable for all investors.

Due to the potential for increased merger activity, we have elected to utilize the Arbitrage Fund (ARBNX and ARBFX), an open-end mutual fund, to gain exposure to the merger and acquisition space. The Arbitrage Fund is sub-advised by Water Island Capital, LLC, which is based in New York, NY. John Orrico, CFA is the President and Lead Portfolio Manager of Water Island Capital. Orrico has over 27 years of experience in the investment industry and has been the Portfolio Manager on the Arbitrage Fund since 2000, when he formed Water Island Capital, LLC. The goal of the fund is to invest in merger and acquisition deals in an effort to benefit from the pricing arbitrage which may be present in the market price of the stocks.

The focus of the fund is on those deals which are being constructed in a shareholder-friendly manner. The portfolio management team typically avoids deals which have potential regulatory issues or may have other political hurdles to overcome. Also, the portfolio managers avoid deals which are being implemented by shareholder activists or deals which are being pushed by private equity or investment banking firms. Hostile takeovers often attract the interest of other bidders which can greatly reduce the profit potential and increase the risk in the deal structure. By avoiding these less efficient deals, the portfolio management team is able to focus their efforts on deals which may be more straightforward and which have a shorter duration to close.

In the event two companies agree to combine businesses, the portfolio management team buys the stock of the company being acquired and sells short the stock of the acquiring company. When shares of the acquiring company are sold short, the proceeds from the sale are maintained in cash and are not utilized to purchase additional shares. The portfolio management team has been able to capitalize on its success without the utilization of leverage. The focus of investing in “friendly” deals is extremely important as one of the biggest risks in investing in transactions of this nature is to have the deal fall apart in the middle of the transaction.

The portfolio management team focuses on investing in announced mergers and acquisitions which have a closing date of approximately 120 days and which have a return potential of 8% to 10%. The fund is typically invested in 40 to 50 positions and may periodically have high levels of cash. In the event of future short-selling bans, like those instituted in late-2008, the fund is able to replicate the short sale position with synthetic shorts, or by utilizing options strategies (i.e.: buying put options). The Arbitrage Fund typically has a short position of approximately 30%. Therefore, as long as there is some level of deal flow occurring, the fund may have ample opportunity to invest in its prescribed mandate.

The Arbitrage Fund is able to invest across the market capital spectrum, having the ability to buy deals in the small-, mid-, and large-cap space. Additionally, the Fund is not confined to U.S. borders, which is particularly important as merger and acquisition activity in the energy, healthcare, financial, and technology sectors appear to be picking up due to the desire for companies to continue their global growth aspirations.

As a beneficial by-product, the manner in which the fund is invested results in a long/short equity portfolio, but which importantly, has a real purpose. In some long/short equity mandates, the portfolio manager makes an effort to buy stock of companies which they believe may increase in value and at the same time, attempts to identify companies which they believe may decrease in value over time. These types of portfolio mandates, when selected appropriately, can be beneficial to the overall

portfolio due to the low correlations of returns, and can be equally as beneficial in falling or volatile market environments. Rather than a portfolio manager that tries to be good at buying and selling-short stocks simultaneously, we believe the Arbitrage Fund is a long/short fund with a purpose.

Correlations between the Arbitrage Fund and major stock and bond indexes have historically been low. The diversification of client portfolios with a low-correlating asset class can be beneficial during most market environments. We are currently in favor of coupling the low-correlations of returns with an asset class that may be presenting reasonable investment opportunities. Since inception of the Fund in 2000, the performance returns have had a correlation of 0.38 to the S&P 500 Index and a correlation of 0.05 to the Barclays U.S. Aggregate Bond Index. Even with these low correlations performance for the Fund has been quite impressive. Significant market downturns have historically not been a factor for the Arbitrage fund, even in 2008.

Manager Returns Through August 2009	2008	2007	2006	2005	2004	2003	2002	2001
Arbitrage Fund - Institutional Class (ARBNX)	-0.6%	7.5%	6.1%	0.0%	0.8%	15.3%	9.3%	8.7%
S&P 500 Index	-37.0%	5.5%	15.8%	4.9%	10.9%	28.7%	-22.1%	-11.9%

Annualized Returns Through August 2009	YTD*	1 year	3 years	5 years	Since Inception
Arbitrage Fund - Institutional Class (ARBNX)	7.5%	5.5%	5.1%	5.3%	6.1%
S&P 500 Index	15.0%	-18.3%	-5.8%	0.5%	-2.0%

*Performance not annualized for periods less than one year

Considering the market environment in late 2008 and early 2009, share prices for many companies dropped to levels which may have prohibited them from buying other companies in an all-stock transaction. Additionally, the lack of leverage buyouts (LBO's) along with the tougher credit conditions has allowed for companies with available cash on their balance sheets to consider purchases and mergers as potential for growth.

Risk considerations for the Arbitrage Fund, or any merger and acquisition strategy, should be closely monitored. A possible (yet unlikely) environment in which deal flow completely dries up may prove to be a difficult investment constraint on the Fund. Additionally, regulatory and geopolitical concerns, particularly in sectors of the market which have historically drawn the attention of politicians and regulators may occasionally be difficult to gain exposure to in the portfolio.

We suggest investors consider this strategy as a part of their overall asset allocation. We anticipate The Arbitrage Fund will be approximately 2% to 4% of client portfolios.