

Ticker Symbol

MERFX

**Roy D. Behren**

Portfolio Manager
Westchester Capital
Management

**Michael T. Shannon**

Portfolio Manager
Westchester Capital
Management

Q. How would you describe your investment strategy? Do you stay within this style at all times, or do you modify it as market conditions change?

A. We're in the merger-arbitrage business. Under normal market conditions, The Merger Fund invests at least 80% of its assets in the equity securities of companies which are involved in publicly announced mergers, takeovers, tender offers, leveraged buyouts, spin-offs, liquidations and other corporate reorganizations. In each case, we purchase these securities at a discount to their expected value upon completion of the transaction, and a variety of hedging strategies are employed in our efforts to limit market-related risk. The mix of deals in our portfolio may change with economic and market conditions, but the fundamental investment strategy remains the same.

Q. What is an arbitrage "spread"?

A. It's the difference, expressed either in dollars or as a percentage, between the current price of a takeover stock and the deal price.

Q. Do you perform your own research or do you use Street research?

A. We perform our own primary research and supplement it with Street research as required. We also routinely employ the services of outside advisers, including industry consultants and lawyers with antitrust or other regulatory expertise.

Q. How many investment professionals do you have on staff?

A. We have six investment professionals, a Chief Operating/Chief Compliance Officer, a Business Development Officer, an Assistant Controller and four people in the middle office.

Q. What is the maximum amount that The Merger Fund[®] can invest in any one company or in any one industry?

A. There is no restriction on the amount that the Fund may invest in any one long position, provided that no single industry group represents more than 25% of net assets. As a practical matter, the Fund's individual arbitrage investments rarely approach 10% of net assets, and our median position size is currently less than 2%.

Q. Do you typically visit the companies you are interested in before making the decision to buy?

A. We rarely visit companies before purchasing shares, but unlike many other arbitrageurs, we often meet with management during the pendency of the transaction. These face-to-face meetings are an important element of our research process.

Q. Which arbitrage situations fall within your investment universe?

A. We typically invest only in publicly announced deals in which the target company has a market capitalization of greater than \$400 million.

Q. How do you evaluate potential investments?

A. Our analysis of the deal includes consideration of the strategic rationale for the transaction, the history and reputation of the management teams involved, the conditions attached to completion of the deal, regulatory issues, liquidity, timing, downside and potential rate of return.

Q. What are your criteria for selling a position?

A. We will sell a position if the arbitrage spread narrows to a level at which the risk-reward ratio is no longer favorable or if we become concerned about the status of the transaction; otherwise, we hold the position through completion of the deal.

Q. How long is your average holding period?

A. Our average holding period is three to four months, roughly the amount of time it takes for most deals to be completed.

Did you know?

Swiss firms were the most acquisitive they have been in at least a decade, powered by Glencore's \$45 billion all-stock offer from Xstrata, Glencore's \$7.5 billion cash offer for Viterro, and Roche Holdings \$5.4 billion cash bid for Illumina.

- Bloomberg Q1 2012 M&A Financial Advisory Rankings

Q. Do you consider The Merger Fund® to be tax efficient?

A. No, since most of our gains are short-term.

Q. Does the Fund invest in hostile deals?

A. Yes. Unsolicited takeover attempts can represent attractive arbitrage opportunities, although researching these situations typically requires a somewhat different analytical framework.

Q. Aren't hostile deals more risky than friendly ones?

A. Not necessarily. And whether the deal is friendly or hostile, every investment that we make must pass the same rigorous qualitative and quantitative screens designed to identify those situations offering the most favorable risk-reward ratios.

Q. Do you ever invest in a deal before a definitive agreement has been signed?

A. Yes. Sometimes we get involved when a company announces that it has hired investment bankers to explore a possible sale or other type of corporate reorganization. Hostile deals fall into this category, as well.

Q. Does The Merger Fund® invest in foreign takeover situations?

A. Yes. In recent years, some of our most compelling arbitrage opportunities have been found in Europe, and non-U.S. transactions have represented as much as 40% of the Fund's portfolio.

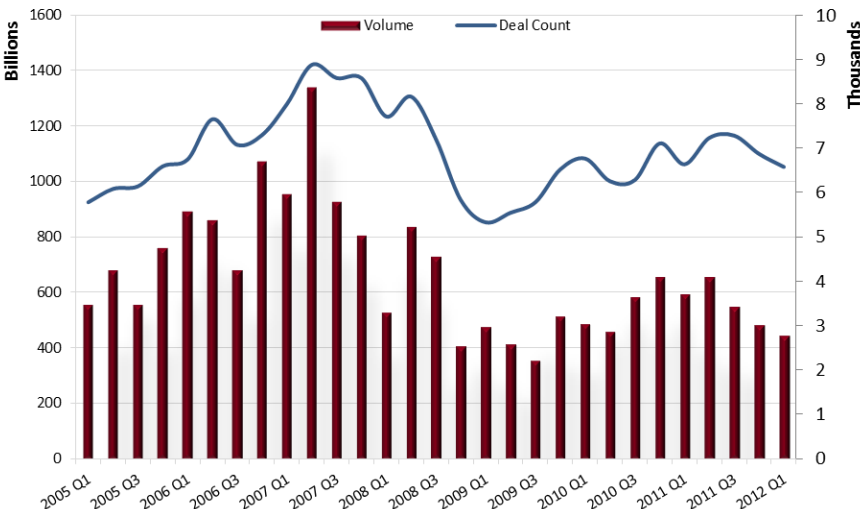
Q. What risks are associated with your arbitrage strategy? How do you seek to mitigate these risks?

A. The principal risk is that certain of the proposed reorganizations in which the Fund invests may be renegotiated or terminated. In attempt to mitigate the risk of a broken deal, we carefully research potential investments, maintain a diversified portfolio of approximately 40-65 deals and avoid outsized positions. In attempt to mitigate market-related risk in stock-for-stock mergers with fixed exchange ratios, we sell short the acquiring company's shares or otherwise hedge the position. Sometimes we also employ macro hedges.

Q. Do you use derivatives?

A. Yes, typically for hedging purposes or as a more tax-conscious way to invest in foreign transactions.

**Comparison of Quarterly Merger Activity
January 2005 – March 2012**



Source: Bloomberg Q1 2012 M&A Advisory League Tables

Global M&A activity in Q1 2012 fell to \$441 billion, the lowest quarterly level since Q3 2009 and a decrease of 26% in value from the same period last year, while global deal count fell by more than 2%.

- The most actively targeted industries in terms of deal value were Diversified Minerals, Oil Exploration & Production, and Transport Services, with a total combined volume of over \$95 billion, representing over 21% of all global volume by dollar;
- Private equity acquisitions fell by more than 40% in terms of aggregate value compared to the same period last year, while average premiums jumped from 16.5% to 28% year-over-year.

Q. How would your strategy be affected by a pronounced slowdown in merger and acquisition activity? Would you look at other investment strategies? Would you make bigger bets on existing positions? What is your outlook for deal-making over the next year or so?

A. M&A activity tends to be non-linear and there will be ebbs and flows even within up-cycles. The foundation has been laid for an extended period of corporate reorganization activity. As we have discussed before, strengthened corporate balance sheets coupled with record low funding rates incentivize companies to undertake transactions. However, as we have seen, economic and political uncertainty can dampen activity, causing acquirers to stand back. Although there may be a lull in activity while companies wait for more clarity, many bankers are observing a growing backlog. And so, the Fund will be watching for a revival of dealmaking. We will continue to be disciplined in our investment activities throughout the cycle rather than trying to force risky positions into the portfolio and are optimistic that the deal gates will open relatively quickly once perceived potential obstacles for dealmaking are alleviated.

Q. Can the Fund employ leverage?

A. The Fund is typically about 90% - 95% invested and typically does not utilize leverage however per prospectus the Fund is able to use modest amounts. The leverage limits are defined by the SEC 40-Act rules stating that the Fund cannot borrow more than 33 1/3% of the Fund's total assets.

Average Annualized Total Returns as of March 31, 2012

	1 year	5 year	10 year	Since Inception *
The Merger Fund®	0.35%	2.47%	3.48%	7.07%
S&P 500	8.54%	2.01%	4.12%	9.31%
Barclays Agg.	7.71%	6.25%	5.80%	7.24%

** January 31, 1989. The Fund's gross operating expenses are 1.68% and net operating expenses are 1.33%, which exclude acquired fund fees and expenses, interest expense, borrowing expense on securities sold short and dividends on securities sold short. Performance data quoted represents past performance; past performance does not guarantee future results. 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 fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling (800) 343-8959 or by visiting www.mergerfund.com*

Q. What is your long-term rate-of-return objective for The Merger Fund®? What level of volatility do you target? How have you done?

A. From the Fund's inception date on January 31, 1989 through March 31, 2012 the Fund has returned an annualized 7.07% and has only had two calendar years of negative performance. The Fund's beta has averaged less than 0.20 and its standard deviation has been roughly one-third that of the S&P 500. Please see above table for more detail.

Q. Are your employees encouraged to invest their own money in the Fund?

A. Westchester Capital Management, the Fund's adviser, invests 100% of its pension and profit-sharing plan in the strategy. The portfolio managers have a significant portion of their investable assets in the Fund or our hedge funds, and the majority of our employees have personal money (in addition to their pension assets) invested in one or more of our investment vehicles.

Q. Why should investors consider using your fund over other funds in this category? In other words, what is your edge?

A. Having invested in more than 2,500 corporate reorganizations over three decades that have seen an extraordinary range of market conditions, the adviser's portfolio-management team is one of the most experienced in the merger-arbitrage business. With over \$5 billion in assets under management, Westchester Capital Management is also one of the largest players in its investment specialty, and this scale, together with the company's reputation for professionalism and integrity, has fostered valuable relationships with Wall Street research, trading and stock-loan departments and their European counterparts. In addition to these long-standing competitive advantages, the adviser has developed an advanced suite of quantitative risk-management tools, which we believe have proven themselves since their implementation in 2006 in extremely challenging market environments.

Q. How long has Westchester Capital Management been managing The Merger Fund[®]?

A. Since its inception in 1989.

Q. How often do you provide updates to the Fund's shareholders?

A. We provide quarterly letters, annual and semi-annual reports. We are also available to speak to investors as requested.

Q. What are your total assets under management?

A. Westchester Capital Management and its affiliate, Green & Smith Investment Management, manage approximately \$5.3 billion.

Q. At what point would you consider closing The Merger Fund[®]?

A. We would consider closing the Fund if faced with large inflows and not enough opportunities to put the money to work. The Fund has closed to new investors three times in its 20+-year history.

Q. Has The Merger Fund[®], its adviser or any employee of the adviser ever had a regulatory problem?

A. No.

Q. Have you experienced much staff turnover?

A. Virtually none. With the return of its former director of research after one year with another firm in 2005, the adviser can represent that it has never lost an investment professional.

- With over 30 years of experience, and having **invested in over 2,500 corporate reorganizations** and other event-driven situations, we're among the most experienced players in our space.
- **Our scale and strong Wall Street relationships** have provided us a competitive edge when it has come to research, trading and access to hard-to-borrow securities.
- **Our interests are completely aligned with those of our investors.** WCM limits personal trading, and each of our portfolio managers has committed the bulk of his investable assets to one or more of our funds.

An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. The statutory and summary prospectus contain this and other information about the Fund. To obtain a prospectus, please call (800) 343-8959 or visit us at www.mergerfund.com. Please read the prospectus carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. The principal risk associated with the Fund's merger arbitrage investment strategy is that certain of the proposed reorganizations in which the Fund invests may be renegotiated or terminated, in which case losses may be realized. Investments in foreign companies involved in pending mergers, takeovers and other corporate reorganizations may entail political, cultural, regulatory, legal and tax risks different from those associated with comparable transactions in the United States.

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

The views expressed are as of March 31, 2012 and are a general guide to the views of Westchester Capital Management. The views expressed are those of the fund manager, 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.

Please note that past performance is not a guide to the future. Potential for profit is accompanied by the possibility of loss. The value of investments and the income from them may go down as well as up and investors may not get back the original amount invested. Performance data included herein for periods prior to 2011 reflect that of Westchester Capital Management, Inc., the Fund's prior investment adviser.

The information contained in this document does not constitute a distribution, nor should it be considered a recommendation to purchase or sell any particular security or fund. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. All such information and opinions are subject to change without notice.

A number of the comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results, however, may prove to be different from expectations. The opinions expressed are a reflection of Westchester Capital Management's best judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class, markets generally, nor are they intended to predict the future performance of any Westchester Capital Management account, portfolio or fund.

Definitions: The **S&P 500** is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The **Barclays Capital Aggregate Bond Index** is a market capitalization-weighted index that includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in the U.S. You cannot invest directly in an index. **EMEA** is the abbreviation for Europe, Middle East and Africa; **APAC** is the abbreviation for Asia Pacific. **Beta** measures the volatility of the fund, as compared to that of the overall market. The market's beta is set at 1.00; a beta higher than 1.00 is considered to be more volatile than the market, while a beta lower than 1.00 is considered to be less volatile; **Standard Deviation** is the degree by which returns vary relative to the average return. The higher the standard deviation, the greater the variability of the investment. **Market capitalization** is the market price of an entire company, calculated by multiplying the number of shares outstanding by the price per share.

The Merger Fund® is distributed by Quasar Distributors, LLC.

For more information please call: (800) 343-8959 Visit us at: www.mergerfund.com