AltShares Merger Arbitrage ETF
FREQUENTLY ASKED QUESTIONS

1. Who is Water Island Capital?

Water Island Capital ("Water Island") is an independent investment adviser that was founded in 2000. The firm specializes in global, event-driven investing and manages approximately $2.2 billion[1] across registered investment companies (mutual funds), private investment vehicles, and separately managed accounts. The firm employs 44 professionals[1] across offices in New York and London who are committed to providing differentiated investment solutions and robust client service to all types of investors.

2. What are AltShares?

As a client-focused firm, Water Island strives to deliver investment solutions in whichever structure clients may demand. This commitment led the firm to capitalize on its two decades of experience managing alternative strategies with daily liquidity to develop and launch AltShares, a new line of exchange-traded funds (ETFs) that seek to democratize alternative investments, making non-traditional strategies available to all investors.

3. What are alternative investments?

Alternative investments are investment strategies that differ from traditional, long-only stock and bond investments. Alternatives typically invest in a broader range of markets and asset types, invest both long and

[1] As of March 31, 2020.

short, and utilize hedging strategies. They may also make concentrated investments, utilize illiquid securities, and employ leverage. Historically, alternative investments have been limited to investment vehicles – such as hedge funds – with high minimum investments and strict investor qualification guidelines. These vehicles also often come with associated high levels of fees, such as performance fees on top of management fees, and they can be illiquid and are often not registered with the Securities and Exchange Commission (SEC). Popular alternative strategies include not only strategies that invest in capital markets, such as event-driven investing, hedged equity investing, relative value investing, and global macro investing, but also private equity, venture capital, and investing in real assets such as real estate and commodities. Alternative strategies differ from traditional long-only stock and bond investments in that they typically seek to deliver absolute returns rather than a return relative to a market benchmark, and many alternative strategies can deliver a return stream that is not highly correlated to broader market moves.

4. What are liquid alternatives?

"Liquid alternatives" is a term that refers to a relatively new investment option that offers alternative investment strategies in a public, regulated structure such as a mutual fund or ETF. Such vehicles are typically more accessible to a broader range of investors as they have lower (or no) investment minimums and no investor qualification restrictions. They can offer some of the benefits of alternative strategies while also delivering daily liquidity, transparency (via regular holdings disclosures), relatively lower fees, and more timely tax reporting (reporting on Form 1099 rather than Schedule K-1).

5. What is event-driven investing?

Event-driven investing is one form of alternative investing which seeks to profit from the outcomes of idiosyncratic corporate events such as mergers and acquisitions (M&A), spin-offs, tender offers, asset sales, restructurings, refinancings, recapitalization, reorganizations, and other catalysts. By investing in companies undergoing a corporate catalyst, the strategy can deliver a return stream that is less correlated to stocks and bonds, as such companies tend to no longer trade in line with the direction of broader markets but rather in line with the prospects for the catalysts' eventual outcomes. Event-driven investments can take the form of "hard" catalysts, such as announced M&A, or "soft" catalysts, such as a management change. Harder catalysts tend to have shorter timelines, more definitive outcomes, and less volatility, while shorter catalysts often have longer timelines with less definitive outcomes, greater volatility, and greater return potential.

6. What is merger arbitrage?

Merger arbitrage is a subset of event-driven investing that focuses solely on investing in companies involved in publicly announced mergers, acquisitions, takeovers, buyouts, and tender offers. The profit opportunity in merger arbitrage is called a “deal spread,” which is the difference between the price at which the target company in a transaction currently trades and the price the acquiring company has agreed to pay to complete the deal. In its purest form, an arbitrageur will purchase the shares of the target company in such an event and, if the acquiring company is using its stock as a form of payment for the transaction, the arbitrageur will also sell short shares of the acquirer in order to lock in the deal spread. Transactions generally trade at a positive spread due to the risk that a transaction may be withdrawn or terminated, which could occur for reasons such as failure to receive regulatory approval or failure to receive shareholder approval. (For this reason, merger arbitrage is also referred to as “risk arbitrage” by some investors.) The magnitude of the spread is driven by several factors, including the deal risk (the chance that the deal may fail to close successfully), the time value of money (driven by the timing to close and the risk-free rate), the level of deal flow (as more deals provide more opportunity for arbitrageurs to put money to work, both allowing investors to be more selective and spreading the strategy’s dollars across a broader opportunity set), and volatility (providing more attractive entry points and the ability to trade opportunistically).

7. What are the benefits of merger arbitrage?

A pure-play merger arbitrage strategy invests solely in definitive, publicly announced mergers and acquisitions, which are some of the most definitive (i.e., hardest) catalysts available to event-driven investors. Upon a definitive agreement, the parties to the deal have a contractual obligation to complete the deal, barring some extraordinary circumstance (such as shareholders voting against the deal or regulators blocking the transaction). Once a transaction is announced, the shares of the target tend to trade not in line with broader market movements, but rather in line with the fundamentals of the deal. For a transaction involving stock as payment, a pure-play approach to merger arbitrage will also short shares in the acquirer in line with the deal terms, in order to isolate the portfolio from any movement in the acquirer’s stock. Thus, when executed properly, the strategy should provide a return stream with low correlation and low beta to broader equity and credit markets, low volatility, and strong capital preservation capabilities.

8. What is AltShares Merger Arbitrage ETF?

AltShares Merger Arbitrage ETF (the “Fund”), the first product in AltShares Trust, is a non-diversified, passively managed exchange-traded fund that seeks to provide investment results that correspond, before fees and expenses, to the performance of the Water Island Merger Arbitrage USD Hedged Index. The Fund is designed to provide investors with broad exposure to a merger arbitrage strategy in a wrapper that provides the benefits of a passive ETF (such as tax efficiency, intraday liquidity, daily holdings transparency, no investment minimums, and low fees).

9. What is Water Island Merger Arbitrage USD Hedged Index?

Water Island Merger Arbitrage USD Hedged Index is a passive, rules-based index designed to reflect a pure-play, global merger arbitrage strategy investing in definitive, publicly announced mergers and acquisitions. The index was created by Water Island Indices – an affiliate of Water Island Capital – and builds upon Water Island's two decades of experience managing a daily liquidity merger arbitrage strategy. The index creates hedged positions to capture spreads and manage market risk (by shorting acquirers in stock-for-stock and cash-and-stock transactions and by fully hedging foreign currency exposure); utilizes market-implied probabilities to risk-adjust weightings and manage deal risk; implements liquidity constraints to manage market impact; and rebalances twice per month to ensure access to evolving opportunities in the M&A universe.

10. What are the differences between a passive approach to merger arbitrage and an active approach to merger arbitrage?

Water Island has two decades of experience managing active merger arbitrage strategies, including those in a liquid alternative format. The team's approach is conservative, with a goal of actively managing the strategy to preserve capital, particularly during times of market stress. The primary goal of passively managed merger arbitrage is solely to provide investors exposure to the merger arbitrage universe (though we believe a passive approach can still provide lower volatility and smaller drawdowns than traditional equity strategies).

11. Why might an investor want to consider accessing the merger arbitrage strategy in an ETF structure?

We believe investors seeking a portfolio diversifier with low volatility and low correlation to both stocks and bonds should strongly consider a pure-play merger arbitrage strategy. Furthermore, the benefits of a passive ETF structure – including tax efficiency, intraday liquidity, and daily holdings transparency – make the AltShares Merger Arbitrage ETF an ideal option.

GLOSSARY

Beta is a measure of the sensitivity of an investment relative to a benchmark. **Leverage** is the use of borrowed money. **Liquidity** refers to the frequency and ease with which a security can be bought or sold. A **Long** position is created by purchasing a security, typically with the intent of selling it later at a higher price. A **Recapitalization** is a type of corporate reorganization involving substantial change in a company's capital structure, such as replacing a large portion of debt with equity or vice versa. The **Risk-Free Rate** is the theoretical rate of return of an investment with zero risk, often represented by the yield on short-term US government debt obligations. A **Short** position is created by selling a security without already owning it, typically with the intent of purchasing it later at a lower price. A **Spin-Off** is the creation of an independent company through the sale or distribution of new shares of an existing unit of a parent company. A **Tender Offer** is a public, open offer by a prospective acquirer to stockholders of a publicly traded corporation to tender their stock for sale at a specified price over a specified time. **Tax Efficiency** refers to the ability to minimize tax liabilities. **Transparency** refers to the ability of an investor to access information about the portfolio, such as daily holdings disclosure.

ABOUT ALTSHARES

AltShares Trust is a Delaware statutory trust, which was organized on June 6, 2019, and is registered under the Investment Company Act of 1940, as amended, as an open-end management investment company. AltShares Trust is currently comprised of one series: AltShares Merger Arbitrage ETF, a non-diversified, passively managed ETF. For more information, please visit https://altsharesetfs.com.

IMPORTANT INFORMATION

Brokerage commissions may apply to purchases and sales of ETF shares, which would increase costs and reduce performance.

Before investing, carefully consider the fund's investment objectives, risks, and expenses. The fund's prospectus, which may be obtained at https://altsharesetfs.com, contains this and other important information. Read the prospectus carefully before you invest.

RISKS: Investments are subject to risk, including possible loss of principal. There can be no assurance that the fund will achieve its investment objectives. The fund uses investment techniques with risks that are different from those ordinarily associated with equity investments. Such risks include merger arbitrage risk (in that the proposed reorganizations in which the fund invests may be renegotiated or terminated, in which case the fund may realize losses); passive investment risk; short sale risk (in that the fund will suffer a loss if it sells a security short and the value of the security rises rather than falls); concentration risk; high portfolio turnover risk (which may increase the fund's brokerage costs, which would reduce performance); equity risk; foreign securities risk (in that the securities of foreign issuers may be less liquid and more volatile than securities of comparable US issuers); market risk; derivatives risk; hedging risk; counterparty risk; swap risk; investment company risk; small and medium capitalization securities risk; currency risk; new fund risk; non-diversified fund risk; tracking error risk; and ETF risks. ETF risks include premium-discount risk; secondary market trading risk; cash transactions risk; international closed market trading risk; flash crash risk; authorized participants concentration risk; and large shareholder risk. Risks may increase volatility and may increase costs and lower performance.

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