AltShares Event-Driven ETF (EVNT)

Commentary as of September 30, 2021

Manager Commentary

The market's tone was mixed during Q3, with optimism over economic growth combatting inflation concerns, supply chain bottlenecks, government shutdown fears, and regulatory pressure on large technology firms. While the overall market experienced muted returns and occasional spikes in volatility, event-driven managers endured fairly significant volatility during the quarter – which marked the first meaningful stumbling block for event-driven strategies after an admirable run of consistent, positive returns since the onset of the COVID-19 pandemic in Q1 2020.

The weakness began at the tail end of Q2, after the US Department of Justice (DOJ) sued to block the merger of insurance brokers Willis Towers Watson and Aon – a deal that had already acquired necessary regulatory approvals in all jurisdictions but the US – in mid-June. At the time, the deal was one of the most widely held positions across event-driven portfolios, as it was a large, high-profile deal that most arbitrageurs believed had a strong likelihood of closing. In the ensuing weeks, arbitrageurs began assessing the merits of the DOJ's case, potential remedies for the companies, and the probabilities of various outcomes. Much of the merger arbitrage community came to the same conclusion we did: the companies had a strong case and would succeed in coming to an agreement with the DOJ or win in court. On July 26, however, the companies announced that they had mutually agreed to abandon their planned merger rather than proceed with litigation. This sent shockwaves through the event-driven community, as losses in Willis Towers/Aon positions caused a cascading effect across the merger arbitrage universe, with forced de-risking amongst levered investors and further panicked selling not just in deals with heightened antitrust risk, but throughout the landscape, driving deal spreads wider.

While the elevated volatility in our space was kicked off by antitrust concerns and the failure of Willis Towers/Aon, it was further fueled by additional risks – one novel, and one longstanding. Regulatory reviews in China have been a thorn in the side of arbitrageurs for several years now, as they are notably opaque and the Chinese government has demonstrated a willingness to wield the process as a tool in diplomatic negotiations. Despite the election of a new presidential administration in the US, relations with China remain frosty, leading to spread volatility in a handful of deals requiring Chinese approvals that have been pending longer than expected. More recently, we witnessed attempts by a cohort of retail investors to influence the share prices of companies using their stock as currency for pending acquisitions. With short interest in these acquirers elevated due to the hedges implemented by merger arbitrageurs, these retail investors believed the acquirers' shares were companies, such as GameStop, earlier in the year. Although these efforts have been largely unsuccessful longer-term, they did lead to a further increase in volatility for arbitrageurs short-term. Lastly, periodic spikes in broader market volatility at multiple stages of the quarter caused a reassessment of risk across a broad array of investors – traditional long-only, event-driven, and other strategies – simultaneously, which in turn led to more uncertainty. Selling begat more selling, and spread volatility continued.

In times like this, we believe it is important to remember that while the risks are real – deals can fail – in general, these are the same risks that have always existed in the strategy. If an arbitrageur understands the fundamentals of a deal, develops conviction in a position, and – importantly – can stomach volatility that may emerge along the way, once a transaction closes (and the vast majority of transactions do indeed close) the spread will narrow to zero. Broader market moves do not influence a deal's likelihood of closing. Not only that, volatility can often present attractive entry points and opportunities to trade around spreads, potentially providing a boost to returns. With that in mind, while the portfolio's quarterly return was negative overall, on a

Fund Facts

Inception Date	December 31, 2014
Fund AUM	$3.5 million
Ticker	EVNT
Fund Structure	Actively Managed ETF
Total Annual Fund Operating Expense	1.30%

Trailing Returns (%)	3 Mo	1 Yr	5 Yr	ITD
EVNT at NAV	-2.34	23.52	9.17	6.12
EVNT at Market Price	-2.06	23.87	9.23	6.17

Performance quoted represents past performance and does not guarantee future results. *Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. For performance current to the most recent month end, visit http://altsharesetfs.com or call (855) 955-1607.*

Returns greater than one year are annualized. Net asset value (NAV) represents the value of each share's portion of the fund's underlying net assets (including cash) at the end of the trading day. Market price represents the mid-point between the highest bid and the lowest offer on the listing exchange, as of the time that the fund's NAV is calculated (usually 4:00 pm Eastern time). Please refer to additional performance disclosures at the end of this commentary.

monthly basis the negative performance was limited to July. Amidst the volatility we capitalized on opportunities to trade around spreads and increase exposure to our highest conviction positions, which benefited the portfolio as the arbitrage universe began to steady itself and spreads narrowed over the final two months of Q3. The spread environment began to recover after arbitrageurs were encouraged by the successful completion of a few high-profile transactions, most notably the acquisition of Maxim Integrated by Analog Devices (which required approval in China) and the acquisition of Slack by salesforce.com (which was feared to be a target of the Biden administration's mistrust of consolidation amongst "big tech" companies). While we believe we are still in a phase of spread adjustment, current spreads remain attractive – and in this environment, we remain heavily focused on the most definitive hard catalyst opportunities (namely merger arbitrage). We are well aware of the prevailing risks, but we have decades of experience navigating changing regulatory landscapes. We welcome volatility, deal flow remains plentiful, and as deals continue to close, capital will be freed up and can be put back to work at favorable rates of return. All told, we believe the final months of the year could be opportune for the strategy.

GLOSSARY: A **deal spread** is the difference between the price at which a target company's shares currently trade and the price an acquiring company has agreed to pay. **Deal flow** refers to the level of announced M&A activity.

Effective as of the close of business on September 17, 2021, the fund acquired the assets and assumed the performance, financial, and other historical information of the Water Island Long/Short Fund, an open-end mutual fund (incepted December 31, 2014) that was a series of The Arbitrage Funds, a registered investment company advised by Water Island Capital. The fund's investment objectives, strategies and policies are substantially similar to those of the predecessor mutual fund and it was managed by the same portfolio managers. Performance information for periods prior to September 20, 2021 is the historical performance of the predecessor mutual fund and reflects the higher operating expenses of the predecessor mutual fund. The fund has lower expenses than the predecessor mutual fund. For periods prior to September 20, 2021, the fund's performance would have been higher than shown had it operated with the fund's current expense levels. Inception of the predecessor mutual fund is used for ITD (inception-to-date) returns and inception date of the fund. Performance for periods prior to May 12, 2019, does not reflect the fund's current investment strategy. The predecessor mutual fund's past performance is not indicative of future results. The performance of the predecessor mutual fund reflects fee waivers that were in effect. If fee waivers had not been in place, the performance depicted for the predecessor mutual fund would have been reduced. High, double-digit returns were primarily achieved during favorable market conditions. Such returns are atypical and may not be repeatable.

AltShares Event-Driven ETF top ten holdings as of September 30, 2021: Cineplex Inc; Coherent Inc; Five9 Inc; IHS Markit Ltd; Kaleyra Inc 6.125% 6/1/2026; Kansas City Southern; Nuance Communications Inc; PPD Inc; Willis Towers Watson PLC; Xilinx Inc. Top ten holdings represent 45.6% of the portfolio. Holdings are subject to change. Current and future holdings are subject to risk.

Investors should carefully consider the fund's investment objectives, risks, and expenses before investing. To obtain a prospectus containing this and other important information, visit http://altsharesetfs.com or call (855) 955-1607. Read the prospectus carefully before investing.

RISKS: Investments are subject to risk, including possible loss of principal. There can be no assurance the fund will achieve its objectives. The fund uses investment techniques and strategies with risks that are different from the risks ordinarily associated with equity investments. Such risks include event-driven risk; 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); special situations risk; ETF risks (which include premium-discount risk, secondary market trading risk, cash transactions risk, international closed market trading risk, flash crash risk, and authorized participants concentration 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); market risk; sector risk; options risk; large shareholder transaction risk; hedging transaction risk; high portfolio turnover risk (which may increase the fund's brokerage costs, which would reduce performance); concentration risk; credit risk; counterparty risk; swap risk; non-diversification risk; derivatives risk; LIBOR rate risk; temporary investment/cash management risk; small and medium capitalization securities risk; leverage risk; liquidity risk; interest rate risk; foreign securities risk (in that the securities of foreign issuers may be less liquid and more volatile than securities of comparable US issuers, and may be subject to political uncertainty and currency fluctuations); active management risk; currency risk; and new fund risk. Risks may increase volatility and may increase costs and lower performance.

Commentary represents the manager's opinion and may contain certain forward-looking statements which may be different than actual future results, is subject to change, and is under no obligation to be updated. Commentary should not be regarded as investment advice or a recommendation of any security or strategy.

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