Published 24 February 12 PM CST

VIVALDI MERGER ARBITRAGE • JANUARY 2021 COMMENTARY

Jeff O'Brien & Dan Lancz, Portfolio Managers

The Vivaldi Merger Arbitrage Fund I Share ("Fund", "VARBX") was up +3.23% *net* for the month of January. The Fund is up 2.41% net month-to-date, bringing year-to-date performance to +5.82% *net* (as of 2/22/2021). The momentum we built in the fourth quarter of last year has continued and the portfolio as we have positioned it has performed well. Both the merger and special purpose acquisition company[1] ("SPAC") arbitrage components of our portfolio have provided positive performance and we think that the month is just the first data point of many to come supporting our expectation of the opportunities in both areas this year.

The activity in SPACs has continued to require new superlatives. There were 91 new SPACs that came public during the month, bringing the total number of SPACs actively looking to make an acquisition to 302. In addition, there were 17 announced business combinations during the month. We think this torrid pace is likely to continue on both fronts for the foreseeable future. It is worth noting that many of the mergers announced during the month came from SPACs that have been public less than six months. The timeline from Initial Public Offering ("IPO") to deal has shortened substantially and we believe this an opportunity from a risk managment perspective by reducing holding periods as well as from the opportunity to recycle our capital again and again to potentially increase returns. This is reminiscent of the late 1990's in merger arbitrage where the active number of deals exceeded 400 and profit opportunities were abundant. Arbitrageurs made substantial double digit returns and the environment persisted for far longer than most thought it would during that time period. Regarding SPACs currently, we are aware that some view the current activity as potentially frothy. It is always difficult to know for sure, much like it is near impossible to know if the market is at "the" top or "the" bottom. However, this topic is a daily discussion we have internally and are very actively managing our risk in the portfolio[2]. When the trading prices of our SPAC holdings rose above certain levels, deal or no deal, we pared them back, took profits and reinvested into more attractive opportunities. While this selling may place a mild governor on some names that later announce deals and trade up, we think this systematic approach to removing risk from the book is appropriate. We do think that the frenetic activity is partially reflective of the fact that this "come public" vehicle has now been legitimized in a very large way with both institutional backing as well as world class sponsors getting behind it. This includes a slew of former Fortune 500 executives as well as top venture capital investors. SPAC sponsors have become a veritable "who's who" of the very best investing prowess and leadership this country has to offer. However, one of the most important things that we look at when a SPAC finally announces a transaction is the PIPE (Private Investment in a Public Equity). A PIPE is almost always required in SPAC transactions to fill out the financing required to complete the de-SPAC merger. The investors in the PIPE matter to the success of the deal because it has been viewed as a blessing of the transaction by the rest of the market. The better the makeup of the investors in the PIPE, the better the stock has usually traded. The firms we are seeing show up again and again in many PIPE's include BlackRock, Fidelity, Franklin Templeton, and a host of other household institutional investors. We think this move by the largest institutional investors in the world into the SPAC market will give it both support in the near term and with the potential for staying power in the long term.

Momentum has continued to build on the merger arbitrage front. We had 12 announced definitive mergers this month representing over $40B worth of total deal value, spread across a broad spectrum of industries. Most of these mergers were in the $1B to $10B enterprise value range, which is right in the sweet spot for our style of investing. A few highlights from this group were the $8B purchase of Change Healthcare (CHNG) by Unitedhealth Group (UNH), Teledyne Technologies (TDY) $7.3B pact with competitor FLIR Systems (FLIR), as well as deal in the laser-based photonics space with Coherent Inc (COHR) agreeing to a $5B cash and stock merger with Lumentum Holdings Inc (LITE). What these three examples has shown is that strategic corporate deal making is very much in motion. Management and boardrooms are no longer sitting in the bunker waiting to ride out Covid uncertainty. Consolidation within industries is picking back up and is forcing others to look around and take notice. First movers are grabbing the assets they believe will better position themselves for the new post-Covid environment. What will be interesting to see is how other companies react to consolidation in their industry. Will announced deals beget more announced deals? Will industry consolidation create third party overbids for coveted assets, where boardrooms were too slow to act? We believe the answer to both questions is a resounding 'yes'.

We continue to be incredibly excited about the opportunities we see for 2021. As always, we invite our clients to call with any questions they may have regarding our organization or the Fund.

[1]Special purpose acquisition companies (SPACs) are shell companies that raise capital in initial public offerings (IPOs) for the purpose of merging with or acquiring an operating company.
[2]There can be no guarantee that any strategy will be successful. All investing involves risk, including potential loss of principal.

>> VARBX Top 10 Holdings (% of NAV) – as of 1/31/2021

Varian Medical Systems, Inc. (VAR) / Siemens Healthineers AG (SHL)	6.1%
National General Holdings Corporation (NGHC) / Allstate Corporation (ALL)	5.4%
Eaton Vance Corp. (EV) / Morgan Stanley (MS)	4.9%
Acacia Communications (ACIA) / Cisco Systems (LVMH)	3.6%
Slack Technologies Inc. (WORK) / Salesforce.com Inc. (CRM)	3.4%
HMS Holdings Corp. (HMSY) / Gainwell Technologies	2.1%
Perspecta Inc. (PRSP) / Peraton	1.1%
Cardtronics PLC (CATM) / NCR Corporation (NCR)	0.9%
FBL Financial Group (FFG) / Private	0.7%
Watford Holdings (WTRE) / Arch Capital Group Ltd. (ACGL)	0.7%

Avg. Annualized Returns* as of 12/31/2020	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (4/1/2000)
Performance at NAV without sales charge							
A share (VARAX)	4.26%	3.66%	3.66%	3.81%	2.97%	3.44%	9.31%
I share (VARBX)	4.29%	4.00%	4.00%	4.13%	3.29%	3.74%	9.60%
Barclays Agg. Bond Index	0.67%	7.51%	7.51%	5.34%	4.44%	3.84%	5.10%
S&P 500 Index	12.15%	18.40%	18.40%	14.18%	15.22%	13.88%	6.58%
Performance at MOP includes maximum sales charge							
A share (VARAX)	-1.73%	-2.27%	-2.27%	1.79%	1.76%	2.83%	9.00%

**ANNUALIZED FOR PERIODS GREATER THAN 1 YEAR.*

EXPENSE RATIO: A SHARE 2.84% GROSS; I SHARE 2.53% GROSS.

PERFORMANCE QUOTED REPRESENTS PAST PERFORMANCE AND DOES NOT GUARANTEE FUTURE RESULTS. PERFORMANCE SHOWN INCLUDES THE PERFORMANCE OF THE UNREGISTERED PREDECESSOR FUND (INCEPTED 4/1/2000) WHICH CONVERTED ITS ASSETS AND PERFORMANCE INTO THE VIVALDI MERGER ARBITRAGE FUND ON 10/01/2015. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE SO THAT SHARES, WHEN REDEEMED, MAY BE WORTH MORE OR LESS THAN THEIR ORIGINAL COST. MOP (MAXIMUM OFFERING PRICE) FIGURES REFLECT MAXIMUM SALES CHARGE IN CLASS A SHARES OF 5.75%. NAV (NET ASSET VALUE) RETURNS DO NOT INCLUDE THE EFFECT OF ANY APPLICABLE SALES CHARGES. CURRENT PERFORMANCE MAY BE LOWER OR HIGHER THAN THAT SHOWN HERE. PERFORMANCE DATA CURRENT TO THE MOST RECENT MONTH-END IS AVAILABLE AT 877.779.1999.*

SPECIAL PURPOSE ACQUISITION VEHICLES MAY BE UNSEASONED AND LACK A TRADING HISTORY, A TRACK RECORD OF REPORTING TO INVESTORS, AND WIDELY AVAILABLE RESEARCH COVERAGE.

MUTUAL FUND INVESTING INVOLVES RISK. PRINCIPAL LOSS IS POSSIBLE. INVESTMENTS IN COMPANIES THAT ARE SUBJECT OF A PUBLICLY ANNOUNCED TRANSACTION CARRY THE RISK THAT THE PROPOSED OR EXPECTED TRANSACTION MAY NOT BE COMPLETED, OR MAY BE COMPLETED ON LESS FAVORABLE TERMS THAN ORIGINALLY EXPECTED, WHICH MAY LOWER THE FUND'S PERFORMANCE. INVESTMENTS IN FOREIGN SECURITIES INVOLVE GREATER VOLATILITY AND POLITICAL, ECONOMIC, AND CURRENCY RISKS AND DIFFERENCE IN ACCOUNTING

METHODS. INVESTMENTS IN SMALL AND MEDIUM SIZED COMPANIES INVOLVE ADDITIONAL RISKS SUCH AS LIMITED LIQUIDITY OR GREATER VOLATILITY. DERIVATIVES INVOLVE SPECIAL RISKS INCLUDING CORRELATION, COUNTERPARTY, LIQUIDITY, OPERATIONAL, ACCOUNTING AND TAX RISKS. THESE RISKS, IN CERTAIN CASES, MAY BE GREATER THAN THE RISKS PRESENTED BY MORE TRADITIONAL INVESTMENTS. THE FUND MAY MAKE SHORT SALES OF SECURITIES, WHICH INVOLVES THE RISK THAT LOSSES MAY EXCEED THE ORIGINAL AMOUNT INVESTED, THE FUND MAY USE LEVERAGED WHICH MAY EXAGGERATE THE EFFECT OF ANY SERICITES OR THE NET ASSET VALUE OF THE FUND, AND MONEY BORROWED WILL BE SUBJECTED TO INTEREST COSTS. IN THE CASE OF AN INVESTMENT IN A POTENTIAL ACQUISITION TARGET, IF THE PROPOSED MERGER, EXCHANGE OFFER, OR CASH TENDER OFFER APPEARS LIKELY NOT TO BE CONSUMMATED, IN FACT IS NOT CONSUMMATED, OR IS DELAYED, THE MARKET PRICE OF THE SECURITY TO BE TENDERED OR EXCHANGED WILL USUALLY DECLINE SHARPLY, RESULTING IN A LOSS TO THE FUND. IF A PUT OR CALL OPTION PURCHASED BY THE FUND EXPIRES WITHOUT BEING SOLD OR EXERCISED, THE FUND WOULD LOSE THE PREMIUM IT PAID FOR THE OPTION. THE RISK INVOLVED IN WRITING A COVERED CALL OPTION IS THE LACK OF LIQUIDITY FOR THE OPTION. THE FUND IS NON-DIVERSIFIED, MEANING IT MAY CONCENTRATE ITS ASSETS IN FEWER INDIVIDUAL HOLDINGS THAN A DIVERSIFIED FUND. THEREFORE, THE FUND IS MORE EXPOSED TO INDIVIDUAL STOCK VOLATILITY THAN A DIVERSIFIED FUND. THE OUTBREAK OF COVID-19 HAS NEGATIVELY AFFECTED THE WORLDWIDE ECONOMY, INDIVIDUAL COUNTRIES, INDIVIDUAL COMPANIES, AND THE MARKET IN GENERAL. THE FUTURE IMPACT OF COVID-19 IS CURRENTLY UNKNOWN, AND IT MAY EXACERBATE OTHER RISKS THAT APPLY TO THE FUND. FOR A COMPLETE DESCRIPTION OF RISKS PLEASE READ THE PROSPECTUS.

**ON 10/01/2015 THE HIGHLAND CAPITAL MANAGEMENT INSTITUTIONAL FUND, LLC, A DELAWARE LIMITED LIABILITY COMPANY WHICH COMMENCED OPERATIONS ON APRIL 1, 2000 (THE "PREDECESSOR FUND"), CONVERTED INTO THE VIVALDI MERGER ARBITRAGE FUND (1940 ACT REGISTERED FUND) PURSUANT TO WHICH THE PREDECESSOR FUND TRANSFERRED SUBSTANTIALLY ALL OF ITS ASSETS INTO THE FUND. THE FUND'S OBJECTIVES, POLICIES, GUIDELINES AND RESTRICTIONS ARE, IN ALL MATERIAL RESPECTS, SUBSTANTIALLY THE SAME AS THOSE OF THE PREDECESSOR FUND. THE PREDECESSOR FUND WAS NOT REGISTERED UNDER THE 1940 ACT AND, THEREFORE, WAS NOT SUBJECT TO CERTAIN RESTRICTIONS IMPOSED BY THE 1940 ACT ON REGISTERED INVESTMENT COMPANIES AND BY THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, ON REGULATED INVESTMENT COMPANIES, SUCH AS THE FUND. PLEASE REVIEW THE PROSPECTUS FOR ADDITIONAL DETAILS.*

THE FUND'S INVESTMENT OBJECTIVES, RISKS, CHARGE, AND EXPENSE MUST BE CONSIDERED CAREFULLY BEFORE INVESTING. THE SUMMARY OR STATUTORY PROSPECTUS CONTAINS THIS AND OTHER IMPORTANT INFORMATION ABOUT THE INVESTMENT COMPANY, AND IT MAY BE OBTAINED BY CALLING 312.248.8300 OR VISITING VIVALDIFUNDS.COM. READ IT CAREFULLY BEFORE INVESTING. VIVALDI ASSET MANAGEMENT, LLC IS THE ADVISOR TO THE VIVALDI MERGER ARBITRAGE FUND, WHICH IS DISTRIBUTED BY IMST DISTRIBUTORS, LLC.

Vivaldi Asset Management LLC
225 W. Wacker Drive Suite #2100
Chicago, IL 60606
P: 312.248.8300
F: 847.386.2910