DUPONT CAPITAL

EQUITY STRATEGY REVIEW
APRIL 2021

MERGER ARBITRAGE

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In recent years, we have become more active in SPACs, as well as merger arbitrage. We believe it is helpful to share our views on both parts of the portfolio separately.

Merger Arbitrage

New transaction announcements in the first quarter continued to rebound from the COVID-lows of 2020. Announced deals were a healthy mix of strategic and financial buyers. Notable deals included Change Healthcare/United Health, Flir/Teledyne, and PRH Health Sciences/Icon. Large private equity deals included Talend/Thoma Bravo, Michaels/Apollo, and Perspecta/Veritas. Private equity has substantial dry powder and will most likely continue to deploy capital throughout the year.

We continue to see U.S. antitrust and SAMR (China) approval as primary risks to deal completion. The prevailing view is that under the Biden administration and a Democrat majority, antitrust scrutiny will be higher and more pending deals could be challenged. Recent press reports suggested that the incoming FTC chairwoman will take a more stringent view of pharmaceutical deals in particular. Some deals were narrowly approved under Trump. The change in administration might lead to some blocked deals or spark fears that will prevent deals from even coming together.

In addition to rising U.S. antitrust risk, some multinational deals still lack clarity on obtaining SAMR (China) approval. Market participants still remember the scars of the NXP Semiconductor/Qualcomm deal, for which an unusual delay in decision by SAMR ultimately led the parties to abandon the deal. There are several pending tech deals that require SAMR approval (Maxim/Analog Devices, Xilinx/Advanced Micro Devices, and Inphi/Marvell Technology). Continued tensions under Biden raise valid concerns that China's regulatory process may be used as a political weapon.

Given heightened risks around U.S. antitrust/SAMR approvals, we are focusing on lower risk/rate of return spreads. There continue to be deals at 1-2% gross spreads and mid-single digit annualized spread, which is usually our preferred hunting ground.

SPACs

The first quarter was a tale of two halves. The first half continued the froth and ebullience of late 2020, with SPAC IPOs trading substantially higher than the $10.00 offer price. However, SPAC performance peaked mid-February with subsequent deals frequently trading at or below the $10.00 offer.

We believe the SPAC market needs a few correcting mechanisms to regain its footing. First, transaction valuations have traded at a significant premium to previous funding rounds. Often, the company's financial projections to 2024 and beyond are quite optimistic, and we prefer to see valuations based on more realistic, near term projections. Also, the amount of capital for SPAC IPOs is generally limited to merger arb funds and other event driven hedge fund investors. The flurry of SPAC IPOs has created a situation of too much supply relative to demand. When this occurred last fall, it led to IPO downsizing and more favorable investor terms. We expect that if new announced transactions continue to trade down to cash trust value, we may see fewer IPOs in the future.

Despite recent headwinds, SPACs still provide a suitable risk-reward opportunity. If one purchases at or below the $10.00 IPO price, there is the opportunity to receive cash back of $10.00 plus interest at redemption. There is also the potential for a transaction that rallies above cash trust value. This is often viewed as a situation of "Heads, I win; Tails, I don't lose." In light of the changing landscape, we will continue to actively manage portfolio mix between SPACs and traditional arb exposure, opting to balance risk and liquidity, while seeking to maximize return.

ABOUT OUR FIRM:

DuPont Capital Management is an SEC registered investment advisor based in Wilmington, Delaware. Since the firm's establishment in 1993, we've had a long history of developing global investment opportunities in both traditional and alternative strategies across equity, fixed income and alternative investments. Our investment team structure gives us the ability to be flexible and adapt to changing market conditions. DuPont Capital's focus is delivering consistent investment management results for our clients. Our history of institutional asset management is rooted back to 1942 when our former parent company, DuPont, established a pension plan for its employees. Corteva Inc. succeeded DuPont as sponsor of the DuPont Pension Plan in 2019. DuPont Capital is a wholly owned subsidiary of Corteva and continues to manage the legacy DuPont Pension Plan.

DuPont Capital's President and CEO, Valerie Sill believes in education and diversity of experience as represented in our investment teams which are comprised of PhDs, engineers, medical doctors, and scientists. We believe their global expertise creates a portfolio implementation edge that benefits our clients.

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IMPORTANT DISCLOSURES: