

MERGER ARBITRAGE

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Most of the performance declines in the quarter were related to “mark to market” losses as merger arb spreads continued to widen after the termination of the Aon/Willis Towers Watson merger on July 26th. While this deal attracted heightened regulatory scrutiny, as the second and third largest insurance brokers were planning to merge, many arbs believed that appropriate divestitures could provide a path to approval. In fact, the deal had already received European Commission approval, as well as other jurisdictions, and the merger parties had an agreement to sell certain Willis assets to Arthur J Gallagher & Co. for \$3.5 billion, conditional upon the Aon/Willis deal closing. We believe the Aon/Willis deal break led to arb investors either reducing or completely selling out of certain pending deals that might pose regulatory approval hurdles from the Department of Justice, Federal Trade Commission, or State Administration for Market Regulation in China. Since June 2015 when DCM began managing merger arb, we have witnessed periods of arb derisking such as this before and they often happen in quick succession.

In our SPAC positioning, we are finding opportunities to buy SPACs at prices below cash trust value on Day 1 of the IPO. Due to the pull-back in funding for SPAC IPOs, many deals are aided by contributions from “anchor investors,” who receive founder shares in exchange for their investment (usually 4.9% or 9.9% of the offering). In recent weeks, these IPOs have traded below the initial offering price on the first day as anchor investors reduce their stake while still receiving the founder warrants. This provides an attractive opportunity for us to initiate positions below cash in trust, while still receiving warrants and the potential for upside if a deal is well received. If not, there is always the opportunity to redeem at trust value, which is often higher than the initial purchase price of recent SPAC IPOs.

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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