Hello,

On behalf of Harris Arch, CFA and Dan Moore, CFA, the portfolio managers of DuPont Capital's merger arbitrage strategies, attached is our monthly commentary and the October 2021 fact sheet containing performance and risk metrics.

Performance

For the month of October, our Merger Arbitrage strategy increased 77 basis points (bps) net of fees and the Merger Arbitrage Enhanced strategy, which utilizes leverage, increased 155 bps net of fees. Year to date through the end of October, Merger Arb is up 6.08% and Merger Arb Enhanced is up 10.38%, net of fees. The Merger Arb Enhanced strategy is conservatively leveraged at 1.92X gross and 1.68X net leverage.

The months of September and October were vastly different for the capital markets, but we are pleased to have generated positive absolute performance in both months. Recall that during the month of September, the S&P 500 declined 4.7%, which was the 2nd worst month in the past 18 months, since the start of the pandemic in March 2020. Additionally, the Bloomberg U.S. Aggregate Bond Index declined 0.87% during September. We were up 47 bps (Merger Arb) and 107 bps (Merger Arb Enhanced) net of fees in September. In October, equities rebounded sharply as the S&P was up 6.91%, while the Bloomberg U.S. Aggregate Bond Index was almost flat, at down 0.03%. In Merger Arb Enhanced, our monthly performance exceeded 100 bps net in both months. Theoretically, an alternative asset strategy should demonstrate a low correlation to broader risk assets while earning attractive positive returns over the risk-free rate. While we caution against extrapolating beyond two months of data, we are pleased to have generated attractive absolute returns in both market environments.

Outlook and Strategy

In merger arbitrage, while we continue to see new deals, in several examined situations, the spreads were a bit too tight in our opinion. We did put on a position in Phillips 66 Partners LP/Phillips 66, which was a typical MLP consolidation by its C-Corp parent. In the 6.5 years we have been managing the strategy, we have previously seen several MLP consolidation deals like this in the energy sector. MLPs were created to access cheaper funding costs from a single layer of taxation in a partnership structure, but in recent years, the cost of capital has risen for MLPs to the point where corporate parents no longer see the rationale to maintain an MLP. So far in early November, we have seen a few larger deals compared to October, but are keenly aware of regulatory risk involving either SAMR or CFIUS approval. We continue to monitor those deals and examine possible entry points.

In past commentaries, we have discussed elevated regulatory risks in merger arbitrage situations. Historically, regulators would assess the benefit to the consumer from a transaction, but now regulators are examining the impact to smaller competitors, workers, and other stakeholders. Governments are also displaying a nationalistic posture and sometimes trying to protect their domestic targets from foreign suitors, especially in sensitive industries such as technology and defense. We were recently quoted in an informative Bloomberg article discussing these increasing regulatory risks (https://www.bloomberg.com/news/articles/2021-10-14/watchdog-crackdown-casts-shadow-over-deals-boom-m-a-survey).

In the past month, we have focused more of our resources on the SPAC portion of our arbitrage portfolio. Over the summer, there were several deals that featured anchor arbitrage investors, who receive founder share warrants in exchange for a large purchase (i.e. 4.9% or 9.9%) in the offering. In the past month, we have seen the anchor investor structure replaced in many deals that now offer $10.20 cash in trust (2% overfunding), ½ warrant coverage, and a 12-18 month duration. Not surprisingly, many of these deals are well oversubscribed and we are receiving only a portion of our IPO allocation. Typically, on day 1 of the IPO, these overfunded issues will hold above the $10.00 IPO price, but below the cash in trust level, so there is still the opportunity to buy in the open market below trust value. In the "bubble" times of Q4 2020 and Q1 2021, many SPAC IPOs were trading well above cash trust value on day 1, so buying in the open market was unappealing. While we naturally prefer to establish our stake at the IPO price of $10.00, we think the arbitrage economics in the open market are still preserved at prices below trust value.

While we are witnessing increasing levels of SPAC issuance over the past few weeks, we believe one risk is that the supply of SPACs is increasing too much relative to the number of announced merger transactions. For example, in a recent week, we might see fifteen SPAC IPOs and only two or three announced transactions on the back end, so net supply is still increasing. Existing SPACs are often competing among themselves for attractive targets and scarce PIPE capital, which drives up acquisition valuations. We are cognizant of this risk, but believe that the overfunded trust, enhanced warrant coverage, and shorter duration offer an attractive rate of return investment. SPAC equity capital market bankers are incentivized to bring deals to the market, so it is not surprising to see a rush of issuance at the first sign of a thaw in the SPAC market since March, but we are keenly monitoring if terms start to become less investor friendly.

If you have interest in learning more about our merger and SPAC arbitrage strategy, please let us know and we would be happy to set up a call or meeting with the portfolio management team.

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