

Hello,

On behalf of Harris Arch, CFA and Dan Moore, CFA, the portfolio managers of DuPont Capital's merger arbitrage strategy, attached is our monthly commentary and the August 2022 fact sheet containing performance and risk metrics.

Performance

For the month of August, our Merger Arbitrage strategy increased 54 bps net of fees and the Merger Arbitrage Enhanced strategy, which utilizes leverage, increased 3 bps net of fees. Year to date, Merger Arbitrage is down 0.09% and Merger Arbitrage Enhanced is down 1.71%, net of fees. The Merger Arbitrage Enhanced strategy is conservatively leveraged at 1.62 gross and 1.62 net leverage. In recent months, the leverage has gradually declined as our SPAC holdings reach their redemption date.

Outlook and Strategy

While the S&P 500 declined 4.24% during the month of August, we are pleased to report positive performance in our merger arbitrage portfolios. While it is prudent to avoid excessively focusing on one particular month, this divergence in performance demonstrates the low correlation of our strategy to the broader capital markets. The performance of our strategy ultimately depends on whether deals in the portfolio will successfully close rather than the attractiveness of any singular market attribute such as value or growth, small or large cap, US or international, etc.

In August, we benefitted from the approval from CMA, the UK regulator, in the Avast/NortonLifeLock deal. The arbitrage spread had widened materially as the deal unexpectedly advanced to a Phase II review. In other jurisdictions, such as the US and European Union, the deal had already been approved. It was a surprise to the market that the deal was not approved in Phase I by the CMA. In Phase I, the regulator had taken a narrow definition of the antivirus software market that only included paid software and excluded major free or bundled offerings such as Microsoft Windows Defender. This analysis was contrary to the market definition used in other jurisdictions. While the deal languished in Phase II, the spread widened to over 40%. Our research indicated that the regulators might consider a broader market definition in Phase II, especially as Microsoft continued to accelerate its product offerings. When the deal was approved in early August, the arbitrage spread tightened significantly (Figure 1, below).

Being able to hold a position such as Avast through the interim decline is important. We are keenly aware of other levered merger arbitrage portfolios that often have to sell down in times of weakness or market drawdowns. The ability to accurately time the highs and lows of a

particular deal is extremely difficult and if we believe a deal will ultimately close, we will often continue to hold the deal. As mentioned in previous monthly commentaries, sizing the position appropriately is important so that during a decline, the mark to market loss does not become too onerous.

In recent months, we have certainly witnessed a slowdown in M&A. One culprit has been the rising cost of debt financing. As we write this monthly commentary (late September), the financing for the Citrix acquisition by private equity is currently being marketed. Almost every day over the past week, there is a Bloomberg headline related to the widening discounts in the loans and bonds for the deal. While it is uncertain when M&A will substantially increase from here, it was noteworthy to see one key private equity head from Apollo throw cold water on the idea that the banks will open the lending spigot soon.

<https://www.bloomberg.com/news/articles/2022-09-14/apollo-s-sambur-sees-banks-on-sidelines-for-lbos-for-months>).

In the market selloff following Jerome Powell's hawkish Fed comments at Jackson Hole and the higher-than-expected August CPI reading, we have selectively initiated positions in certain merger arbitrage deals as the spread has widened. Often, market downturns provide an opportunity to add or initiate a position if the spread widens and we believe there is still a strong likelihood of deal closing.

If you would like to speak to us in more detail, please reach out and we would be happy to provide more detail on our strategy.

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Figure 1

Avast PLC Price Chart (Source: Bloomberg)



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Please see GIPS Report in attached Fact Sheet.