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Quantitative Investment Management Firm Versor Releases New White Paper on Merger Arbitrage Strategies

NEW YORK, April 29, 2021 – Versor Investments, a quantitative investment management firm focused on alternative investment strategies, announced today the release of a newly published white paper titled "The Environment for Merger Arbitrage: 2021." The paper is co-authored by Versor Founding Partners Deepak Gurnani and Ludger Hentschel who have over 40 years of combined experience in quantitative investing and research. This paper follows Versor's previous release in February of a white paper titled "Global Macro: Portfolio Diversification for Turbulent Times."

The new paper, which looks at merger arbitrage trends over the past 18 years, provides perspective on the attractiveness of the current merger market environment. The paper also examines the second half of 2020, providing analysis of the large number of large and mid-cap deals announced, low failure rates, numerous improved offers and moderate times to completion. These improved characteristics of the merger market should allow merger arbitrage strategies to deliver attractive returns.

Among the paper's key findings are:

- Despite Covid-19, deal flow was strong in the second half of 2020 with more than 110 mergers announced.
- The dollar value of second-half activity, at more than $500 million, was higher than in the second half of 2017, 2018, and 2019—all strong periods for merger activity.
- Improved offers increased to an unusually high level of 15% in the second half.
- The termination rate of deals in 2020 at 6% was less than the long-term average of 9% and strikingly less than the 15% rate during the financial crisis of 2008/2009.
- Spreads and deal durations were in line with historical averages despite the economy.
- The current fraction of hostile mergers is unusually small at 4% versus 10% historically.

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"The Versor team has invested in merger arbitrage strategies for over 25 years and have seen firsthand their ability to diversify institutional investor equity portfolios and provide attractive returns with low volatility," said Mr. Gurnani. "Despite the stresses on the economy from Covid-19, M&A activity returned to strength in the second half of 2020 and we believe it will continue to be robust in 2021. We think merger arbitrage strategies are well positioned for continued success due to factors including the unusual level of cash at private equity funds and as stronger firms acquire those weakened by the Covid economy."

The dry powder at private equity funds at the end of 2020 stood at an all-time high of $1.5 trillion. Corporate cash, as a percentage of assets, was at a record 10%.

Versor has implemented a systematic investment process for merger arbitrage which allows it to distinguish more attractive mergers from less attractive mergers. The firm employs an alpha forecast model that uses machine learning and a proprietary database covering more than 4,000 mergers to forecast the probability that a merger will close, determine downside risk, and perform competing bid analysis. The strategy invests in announced merger deals across the US, Canada, UK, and Europe.

Versor Investments is well known for quantitative research, having published over 30 white papers available to investors via the newly launched Athenaeum library section of its website. Topics range from tactical asset allocation to enhancing hedge fund portfolio returns. The Merger Arbitrage paper is available here.

About Versor

Versor Investments is a quantitative investment boutique focused on delivering uncorrelated alternative strategies to institutional investors. Headquartered in New York, Versor's leadership experience in quantitative investing extends over 20 years. Using a scientific, research-driven framework to deliver superior risk-adjusted returns, Versor has two business lines: Hedge Funds and Risk Premia. For more information on Versor, see https://versorinvest.com/.

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