Versor Merger Arbitrage: Current Environment and Outlook

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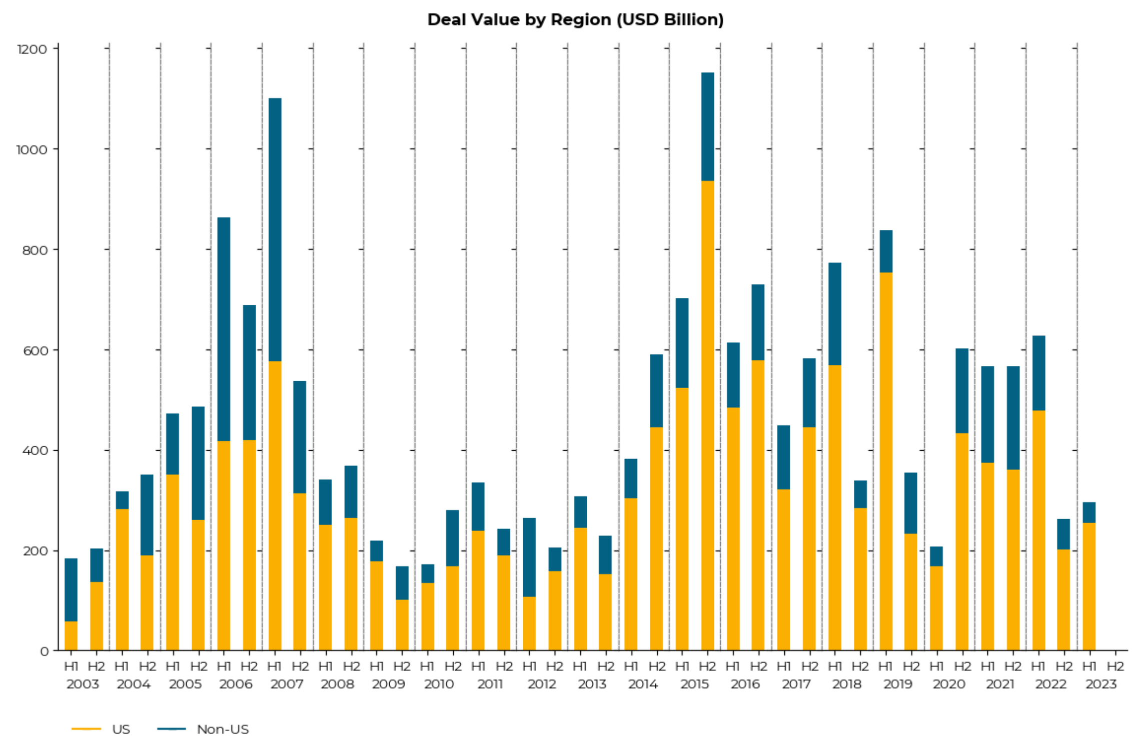
After a challenging first half of 2023, in which an over-reaching FTC/DOJ caused much uncertainty, we believe the Activision (Acquirer: Microsoft) ruling marked a turning point for the merger arbitrage environment. This major win occurred after other deals, including Within (Acquirer: Meta) and Change Health Care (Acquirer: United Healthcare), succeeded in defeating highly speculative legal arguments used by regulators and eventually closed their deals. Clearly, there's a path forward for deals threatened by weak antitrust arguments to close through litigation. Additionally, while spreads recently tightened in the wake of these rulings, they remain extremely wide by historical standards. In previous periods where we have observed wide spreads, the credit crisis in 2008 and the Covid crisis of 2020, the strategy delivered strong returns in the following 18-24 months. Combined, these developments suggest an attractive risk/reward profile in the space.

These factors, amongst others, are detailed below. Each indicates strong opportunity in the next 12-18 months.

Deal flow: Although we are off the historic highs of 2021, deal activity remains healthy and H1 2023 was on pace with H2 2022. While we may see some brief pauses in deal activity during times of uncertainty, the outlook for the next 12-18 months remains healthy. As debt and equity markets continue to stabilize, M&A is expected to increase in the second half of 2023.



Past performance is not indicative of future results. Total announced value represents sum of announced value of all the deals announced in a half year across North America, Europe, Japan, and Australia. H1 2023 includes data through June 30, 2023. The deal value is represented in USD billion.

Data received from Bloomberg and internally prepared by Versor Investments. Simulated, back-tested data. For illustrative purposes only.

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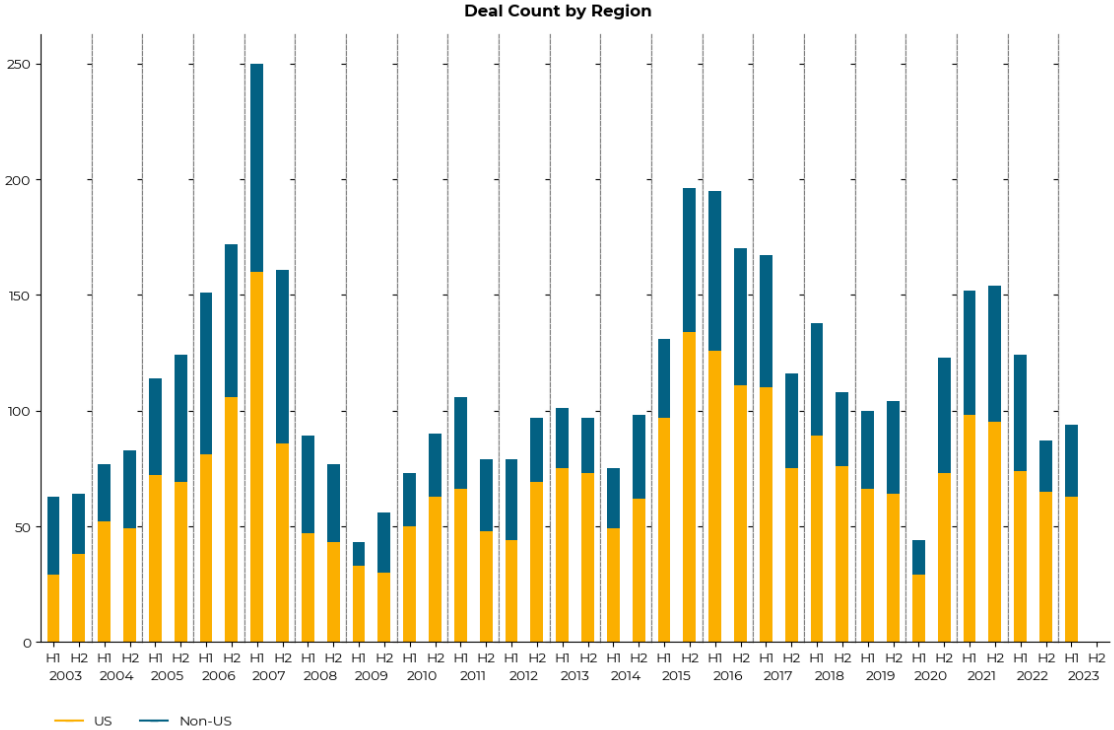
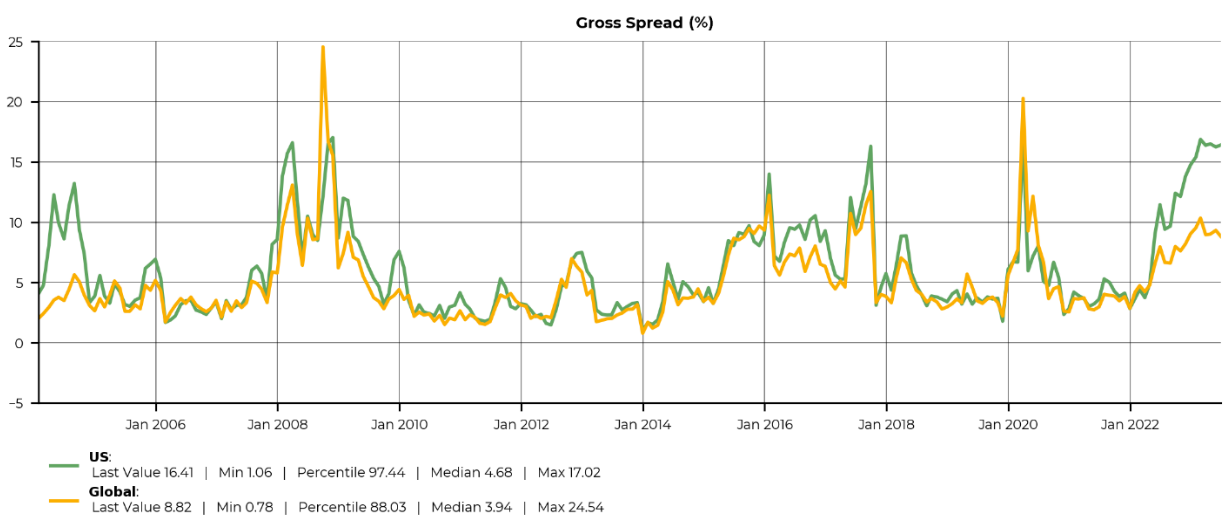


Past performance is not indicative of future results. Total deal count represents total number of deals announced in a half year across North America, Europe, Japan, and Australia. H1 2023 includes data through June 30, 2023. Data received from Bloomberg and internally prepared by Versor Investments. Simulated, back-tested data. For illustrative purposes only.

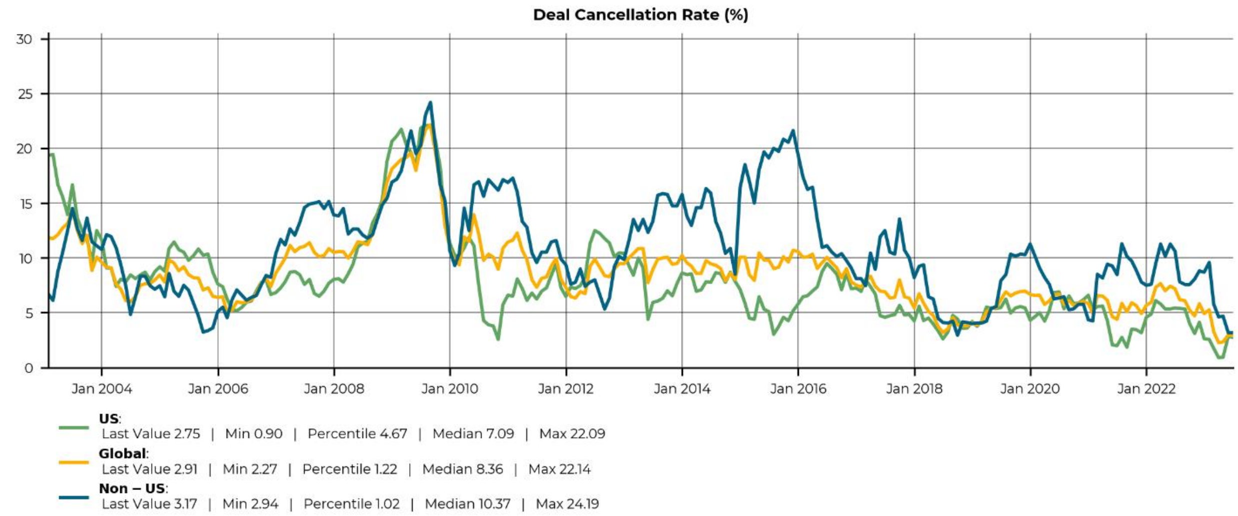
Spreads: Increased regulatory scrutiny and negative sentiment widened merger spreads over much of 2022 and 2023. US merger spreads are currently at a decade-high level. Historically, this indicates an attractive entry point.

In March of 2021, we released a whitepaper titled, "[The Environment for Merger Arbitrage: 2021."]()In that paper, we showed that the state of various merger indicators pointed to an exceptionally favorable strategy environment. Merger Arbitrage posted strong returns in the period from April through December of 2021.



Past performance is not indicative of future results. Performance results reflect the reinvestment of income. Spreads represented in the chart are gross spread weighted by the cube root of market capitalization of the targets of all the mergers in the audited universe, on the given date in the respective region. Negative spread values, on any given date, are excluded. The US contains mergers where the targets primary listing is in the US. Global contains mergers where the target primary listing is in Europe, United Kingdom, Canada, and US. The data is through June 30, 2023.

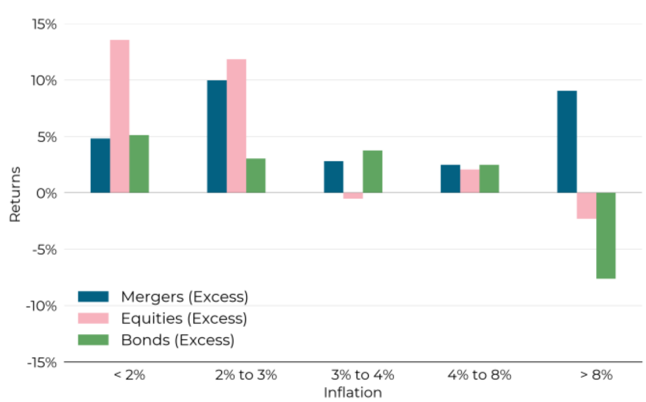
Termination rates: Although deal termination rates experienced a modest uptick, they remain low. Acquirers litigating blocked deals have been successful. On average, the deals continue to be completed in under 6 months.



Past performance is not indicative of future results. Performance results reflect the reinvestment of income. The figure shows the failure rate of mergers over time. The failure rate is the number of mergers that terminate divided by the sum of pending and terminating mergers. The data is through June 30, 2023. Simulated back-test data. For illustrative purposes only. Data received from Bloomberg and internally prepared by Versor Investments.

Regulatory scrutiny: Presumably, the DOJ/FTC will continue to have extended deal reviews and even litigate to block some deals. However, it's important to note that antitrust laws remain the same. Additionally, many firms are willing to defend their mergers in court and we expect many of them to prevail.

Merger arbitrage during inflation and recessions: Over the last 60 years, merger arbitrage performed well during periods of high inflation and negative GDP growth. The strategy does not need to forecast the economic environment to generate returns as it performs well across regimes.



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Mergers (Excess): Annual merger arbitrage returns comprised of returns from Mitchell, Mark L. and Pulvino, Todd C., Characteristics of Risk and Return in Risk Arbitrage (October 2000) from 1963 to 1989, HFRI Event-Driven (Total) Index from 1990 to 2002 and Versor Merger Arbitrage back-test returns from 2003 to 2021. The returns are net of 1.00% annual management fees and 10.00% performance fees and assume the reinvestment of dividends and other income. Performance fees are a component of management costs. The Performance Fee is calculated in respect of each calendar year subject to a high-water mark provision. Returns excess of annual US T-Bill (3 Months) returns for the year.

Equities (Excess): Represents the annual total returns from S&P 500 from 1963 to 2021 excess of annual US T-Bill (3 Months) returns for the year.

Bonds (Excess): Represents the returns from the "Moody's Seasoned Aaa Corporate Bond Yield" from FRED website. Returns are derived from yields, by repricing the bond, issued at par at the prior year's yield, with the new yield, while keeping the maturity constant. Returns are excess of annual US T-Bill (3 Months) returns for the year.

Inflation: Represents the annual CPI for the United State from 1963 to 2021 and is not seasonally adjusted.

Risk-Free Return: Represents annual returns for US T-Bill (3 Months) from 1963 to 2021.

GDP: Year on year change in seasonally adjusted Real US GDP.

Simulated, back-tested data. For illustrative purposes only.

Data received from Bloomberg, FRED (Federal Reserve Economic Data) and Mitchell, Mark L. and Pulvino, Todd C., Characteristics of Risk and Return in Risk Arbitrage (October 2000) and internally prepared by Versor Investments.

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