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Trump 2.0

A new lease on life for *merger arbitrage*?

FEBRUARY 2025

Marketing communication

EXPLORE

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Summary.

Donald Trump's return to the White House raises many questions, not least about the impact of his policies on the economy and financial markets. *Risk arbitrage* strategies, which focus on mergers and acquisitions, are not left out. What can we expect from this new administration? What challenges and opportunities lie ahead?

In this paper, we detail the workings of merger arbitrage strategies and their main performance driver, *spreads* (the difference between the price offered by the acquirer and the market price of the target). We then analyse the relationship, over the past twenty-five years, between US election results and M&A deals, their failure rates and their *spread*. Our observations show that during the Republican administrations:

- The number of transactions is on the rise;
- Anti-competitive policies are less restrictive;
- The deal completion rate is lower;
- In the aftermath of the elections, spreads tend to tighten.

As we enter 2025, the new Republican presidency in the US is expected to foster a notable upturn in M&A activity, paving the way for numerous investment opportunities for *merger arbitrage* strategies. However, the environment is likely to remain complex, with a significant level of both risk, and failure rates, on transactions.

We look forward to this year with enthusiasm: Our rigorous method of analysing market dynamics and the specific parameters of operations, reinforced by fifteen years of cumulative experience in these strategies, are major assets in making the most of opportunities in a stimulating and demanding environment.

Introduction.

Merger arbitrage strategies, also known as *risk arbitrage* strategies, are absolute return strategies that essentially involve investing in companies involved in M&A transactions, with the aim of profiting from a difference between the price offered for the buyout and that observed in the market. These strategies have historically offered returns with low market correlation.

The environment plays an essential role in price trends: Interest rate levels, the phase of the economic cycle, the geopolitical environment, investor sentiment, etc. The M&A cycle is also influenced by macroeconomic factors – economic growth, interest rates, liquidity conditions, monetary stability -- as well as regulatory and political factors: Political stability, confidence in the legal framework, tax policy, and the regulatory environment. Mergers and acquisitions are also subject to idiosyncratic risks associated with the completion of transactions.

The year 2024 was a busy one on the electoral front, with 76 countries going to the polls. Of all these elections, the one in the US has taken centre stage -- an opportunity for us to look specifically at the impact of the American elections on *merger arbitrage* strategies. Is Donald Trump's inauguration as US President good or bad news for these strategies? **Will the White House give the green light to *merger arbitrage*?**

In this paper, we review the principles of *merger arbitrage* strategies, their performance drivers, and their specific risks. We then analyse spreads under the two types of presidential administrations: Republican and Democratic. Based on this analysis, we show that the election of the Republican Donald Trump, pro-business and in favour of deregulation, should benefit the M&A business, and offer managers of *merger arbitrage* numerous opportunities to generate attractive risk/return opportunities for investors.

1. The performance drivers of *merger arbitrage* strategies.

1.1. *Merger arbitrage*: objectives

Merger arbitrage (or '*risk arbitrage*') is an absolute return investment strategy that essentially consists of **investing in companies involved in M&A transactions, with the aim of profiting from the difference between the price offered for the buyout and the share price(s) in the market.**

When a transaction is announced, the potential buyer informs the market of its intention to buy the company, and the price agreed between the parties for the transaction. As a result, the target company's share price no longer depends on market movements (it is said to be decorrelated), but is linked to the idiosyncratic risks associated with the transaction (financial and operational risks inherent to the integration stage). This price naturally tends to approach the offer price, although it does not always reach it exactly. This difference is explained by the risk of failure of the operation.

There are three types of acquisition.

1.1.1. The three types of acquisitions

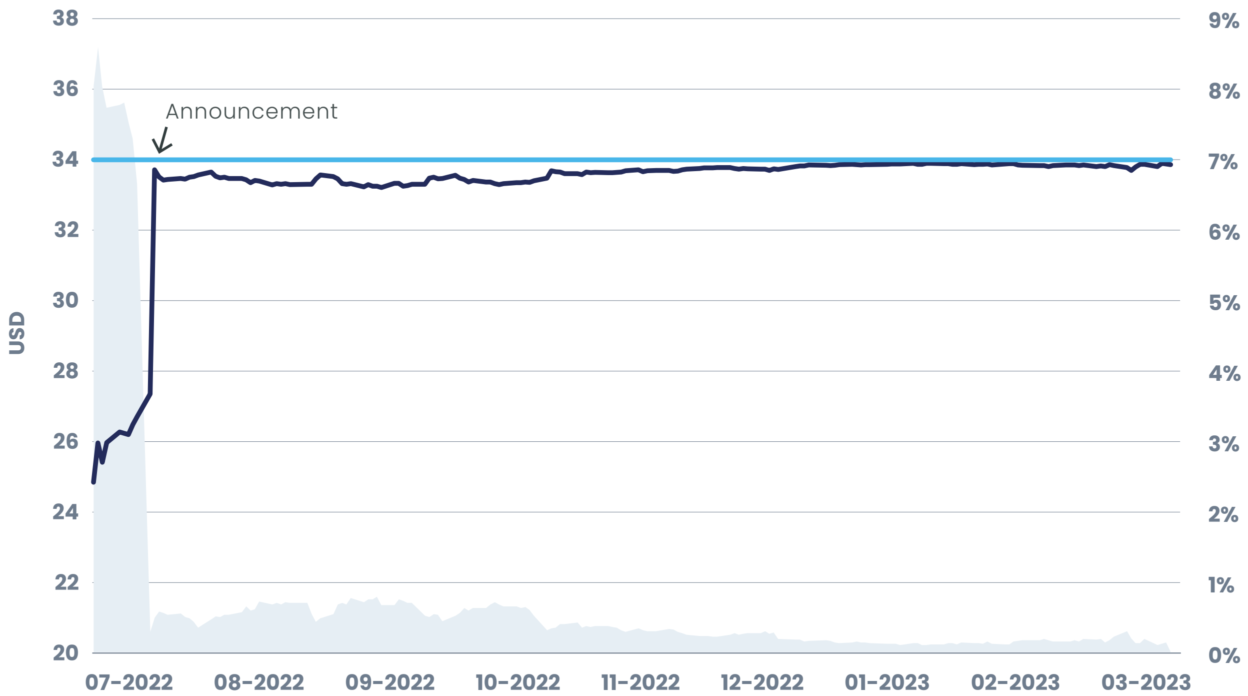
Cash offers

In a cash offer, a company or investor offers to purchase all or a significant proportion of the shares from a target listed company's shareholders, usually at a premium to the market price. The aim of a takeover bid is often to gain control of the target company. Once the deal has been announced, the share price will approach the offer price, but likely not reach it.

Figure 1:
Takeover target share price around the time of the announcement

Purchaser	Global Payments
Target	EVO Payments

Announcement date	01 Aug 2022
Effective date of operation	27 Mar 2024



Past performance is not a reliable indicator of future performance. Markets may evolve very differently in the future.
Source: Candriam, Bloomberg. Example of portfolio companies.

Stock-for-stock offers

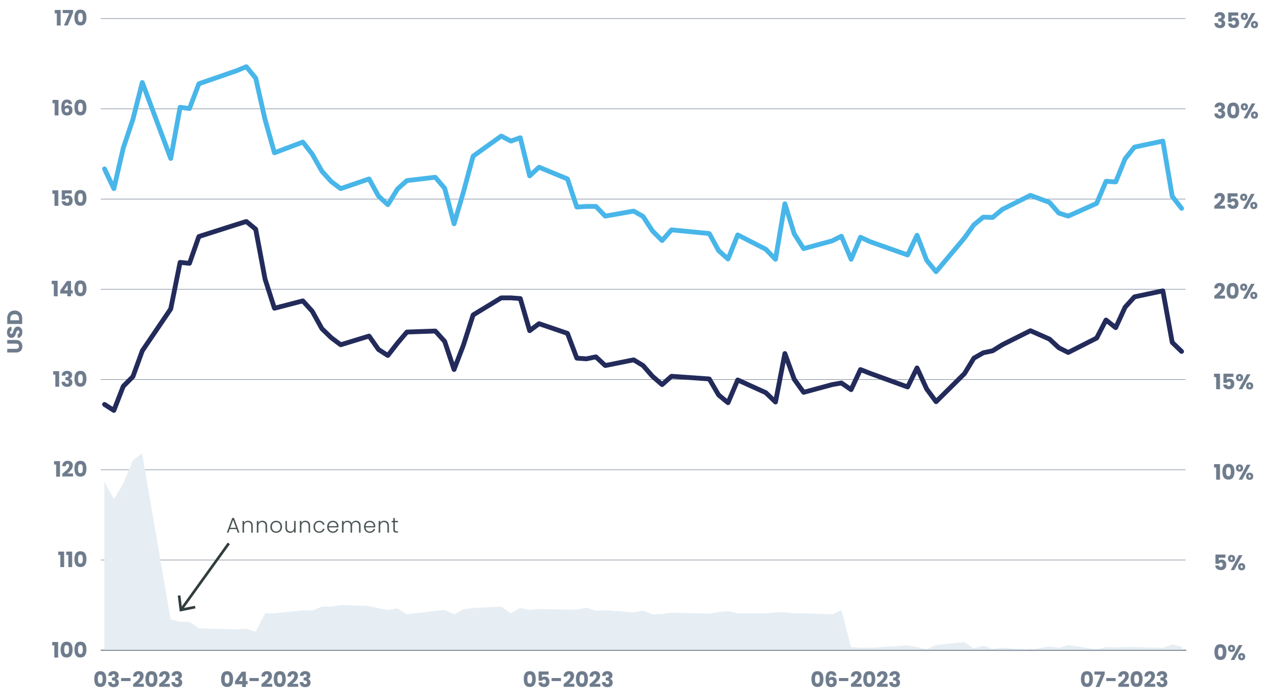
A stock-for-stock offer is a financial operation in which a company, as initiator of the offer, offers its own stocks in exchange for the target company's stocks, instead of purchasing them for cash. In this case, the target company's shareholders receive shares in the acquiring company at a predetermined exchange ratio -- for example, two shares in the acquiring company for each share in the target company.

Figure 2:
Share price trends in target and acquiring companies following the announcement of a public exchange offer

Spread (RHS)
Share Price Life Storage
Share Price ExtraSpace Storage

Purchaser	ExtraSpace Storage
Target	Life Storage

Announcement date	03 Apr 2023
Effective date of operation	20 July 2023



Past performance is not a reliable indicator of future performance. Markets may evolve very differently in the future.
Source: Candriam, Bloomberg. Example of portfolio companies.

Cash and stock offers

In a cash and stock offer, the acquirer offers the shareholders of the target company part of the consideration in cash, as in a cash offer, and part in the acquirer's shares, as in an exchange offer.

1.1.2. Three possible scenarios

These three types of transaction define the conditions of an M&A operation. Several conditions must be met for the acquisition to be completed, which can take several months or even years. There are four possible outcomes :

- The transaction is completed as announced
- The transaction is cancelled due to a condition not being met
- The terms of the offer are revised downwards and the transaction is completed
- The acquisition is completed on better terms than originally announced.

1.2. *Merger arbitrage spreads*: Performance drivers for *risk arbitrage strategies*

As mentioned above, after the deal is announced, the share price approaches the offer price but usually does not reach it: **This difference between the offer price and the market price of the target is called the "*merger arbitrage spread*".**

- In the case of a cash offer, this *spread* is simply the difference between the cash offer price and the share price
- In the case of a stock-for-stock offer, the offer price is not fixed, as it varies with the acquirer's share price. The *spread* is equal to the difference between the proposed exchange ratio, multiplied by the share price of the acquiring company, and the share price of the target company.
- In the case of a cash and stock offer, it's a combination of the two.

The higher the market's assessment of the risk of transaction failure, for example due to failure to obtain regulatory approval, **the greater the *spread*.**

The role of the manager of a *merger arbitrage* strategy is to analyse the transactions, their probability of success, and the associated risks, to determine the remuneration (the *spread*) he deems appropriate, which he compares to the *spread* observed on the market. If he considers the risk/return ratio of the transaction to be favourable in relation to the remuneration of cash in the money markets, he invests.

In a takeover bid, the strategy is to buy the target company's shares, whereas in a public exchange offer or public cash offer, a portfolio manager might purchase the target company's shares and sell the acquirer's in the announced ratio.

In an M&A deal, many parameters come into play that can alter the terms of the deal and jeopardize its completion. As spreads reflect different configurations, they can vary significantly depending on these parameters. Let's take a look at them.

2. What factors influence *spreads*?

2.1. Risks associated with mergers and acquisitions

The main factors influencing the *spread* are the **risks related to M&A transactions**.

Once a transaction has been announced, it must meet a number of conditions before it can be finalised. There are five central conditions:

- **Shareholder approval**: The transaction must be approved by the target company's shareholders. This agreement can take different forms depending on the jurisdiction and the contracts governing the transactions: A vote "for" in the United States, agreement of the majority of shareholders in most cases. In the case of a share offer, the shareholders of the acquiring company may also have to approve the transaction.
- **Financing**: In the context of a merger-acquisition operation, financing risks reflects the uncertainty linked to the acquirer's ability to obtain the funds needed to finance the operation. This risk may arise from factors directly or indirectly affecting the financial viability of the transaction.
- **The approval of the target company's board of directors**: A recommended transaction (explained below) is called a friendly bid, otherwise it is called a hostile bid. A friendly offer is more likely to succeed, as both parties work together to make the deal a success, and they are more likely to find common ground in the event of disagreement.

- **Regulatory approval**: Mergers and acquisitions are subject to regulatory risk relating to the uncertainty of regulatory approval or rejection of the transaction -- a risk that could disrupt, delay or even cancel the transaction. Some sectors are subject to specific regulations requiring authorizations from the relevant authorities (eg, telecommunications, energy, finance, defence). Moreover, governments can intervene to block or impose conditions on an acquisition, particularly when the acquirer is a foreign entity -- and especially in strategic sectors such as technology, critical infrastructure or defence.
- **Authorization from the competition authorities**: These assess whether the transaction is likely to disrupt or reduce competition in one or more markets, in particular by creating or strengthening a dominant position, or by leading to anti-competitive practices (cartels). If a merger is deemed likely to unbalance the competitive situation, the authorities may block the operation or require a modification of its conditions, for example the divestment of certain assets of the target company or the acquirer.

Another risk is the potential for an unforeseeable event in the interval between the announcement of the transaction and its closing which materially impacts the target company's operating activities, such as a factory fire or an epidemic. In this case, the buyer may have to cancel the transaction. Most merger and acquisition contracts include a clause excluding many of these events (conflict, meteorological phenomena, etc).

Any difficulties encountered at any of these stages could jeopardize the operation. **The *spread* reflects the level of risk perceived by the market,** on all these conditions.

2.2. The role of the merger arbitrageur

The role of the arbitrageur is to assess the probability of a deal's success, based on the economic and legal environment, and the various risks involved. He constructs the portfolio according to his level of conviction about the various operations and their associated risk/return profile.

2.3. Anatomy of failures

Not all M&A transactions are successful. According to our analysis, **the average failure rate is 5%**.[1] The rate is higher (12%) for transactions requiring complex approval from regulatory and competition authorities.

Let's take a look at their processes, to understand how they can affect the duration of operations and therefore *spreads*.

In the US, three main organizations have the power to block M&A transactions: **The Federal Trade Commission** (FTC), the **Antitrust Division of the Department of Justice** (DOJ) and the **Committee for Foreign Investment in the US** (CFIUS).

Companies involved in a merger or acquisition must notify the DOJ and FTC under the **Hart-Scott-Rodino Act** (HSR)[2] if the transaction exceeds certain financial thresholds. **Once the notification has been made, the FTC and DOJ have 30 days to assess whether the transaction raises antitrust concerns**, in particular by analysing its impact on competition. If at the end of this first phase doubts remain, either organisation can request a further review to assess the competitive impact ("*second request*"). This is followed by a discussion period between the parties to enable the concerned authority to further its analysis, generally lasting around six months. At the end of this period, if the regulators determine that there is a competition problem, the FTC or DOJ can propose, or even require, concessions to enable the transaction to go ahead, such as the divestment of assets or commitments on future practices. If they are not satisfied, they can take legal action to block the transaction, and a judge will determine whether or not the transaction can go ahead.

The CFIUS (Committee on Foreign Investment in the United States), **is responsible for examining foreign investment in the United States** to assess its potential impact on national security. Created in 1975, its role has become more central and visible over the years, particularly with the increase in foreign investment in sensitive sectors.

1 - Source: Candriam observations on Bloomberg data between 1992 and 2024.
2 - This antitrust law was passed in 1976, and requires US public authorities to examine proposed business combinations that could have an effect on the US economy and consumers. With this law, the authorities seek to avoid the creation of companies with monopolistic tendencies, in order to safeguard the interests of consumers and free competition.

The review process comprises several stages:

- **Notification**: This can be voluntary if the parties involved in the transaction believe that the transaction could raise concerns; it has been mandatory since 2018 (FIRRMA law - Foreign Investment Risk Review Modernization Act[3]) for certain transactions, particularly in critical sectors.
- **Initial review**: CFIUS has 30 days to analyse the transaction and identify potential national security risks.
- **In-depth investigation**: If concerns remain, a 45-day in-depth investigation is carried out to assess the implications of the transaction.
- **Recommendation to the President**: If the committee determines that a transaction poses a serious threat, it can recommend that the President block or cancel the transaction. The President has final decision-making authority.

Most countries have organizations similar to those in the US. For example, the European Commission in the EU and the State Administration for Market Regulation (SAMR) in China have the same prerogatives as the FTC and DOJ do in the US. These organizations can block transactions, even involving US companies, if the revenues generated in their jurisdiction exceed a certain threshold.

Given these processes, and the risks that might compromise the successful completion of transactions, to what extent might the election of the new US President be good news for *merger arbitrage*?

3 - A law designed to control foreign investment in the United States.

3. When the White House Gives a Green Light.

3.1. The impact of the 2024 US elections on M&A transactions

Let's set the scene: The **US Federal Trade Commission is headed by five commissioners** - including its chairman - **appointed by the President** and confirmed by the Senate, no more than three of whom may be from the same political party. Each commissioner has a seven-year mandate, to avoid sudden turnover with changes in presidential administrations. Nonetheless, new presidents tend to appoint commissioners who reflect their political priorities as soon as vacancies arise. So, although the FTC is an agency independent of government, the Chairman has significant influence over the agency's medium-term direction and priorities. It is customary for the FTC Chairman to resign if the party he represents is not re-elected.

The **Antitrust Division of the Department of Justice is headed by an "assistant attorney general" appointed by the President** and confirmed by the Senate. The President can appoint someone who shares his views on competition policy.

And finally, with the **Committee for Foreign Investment in the US, the US President can block** any transaction involving a non-American buyer.

The President's foreign policy can also influence the completion of transactions. Indeed, as we saw earlier, if the target company generates a certain amount of revenue in another jurisdiction, it must receive approval from that jurisdiction to complete the transaction. Diplomatic relations between countries sometimes interfere with the completion of mergers and acquisitions. We saw this in 2022, for example, when DuPont de Nemours' takeover of Rogers Corp failed to receive approval from the SAMR (Chinese regulator) by the November 1st deadline, leading DuPont to pay Rogers a penalty of $162.5 million. More recently (January 2025), outgoing President Joe Biden used his power under CFIUS regulations to block the takeover of domestic steel leader US Steel by its Japanese counterpart Nippon Steel, citing US economic and security interests.[4] Although the agencies are independent , it is clear that the conservative or liberal policy advocated by the President and his stance on diplomatic relations can influence corporate tie-ups.

3.2. Empirical analysis of *spreads* during US election periods

Let's see if there's a relationship between the evolution of spreads at the time of the US elections and the party of the president-elect.

Figure 3:
M&A transactions involving US target companies at election time, and elected President

Election year	Number of operations*	Elected President	Party of the elected President
2000	66	George W. Bush	Republicans
2004	33	George W. Bush	Republicans
2008	29	Barack Obama	Democrats
2012	35	Barack Obama	Democrats
2016	62	Donald Trump	Republicans
2020	38	Joe Biden	Democrats

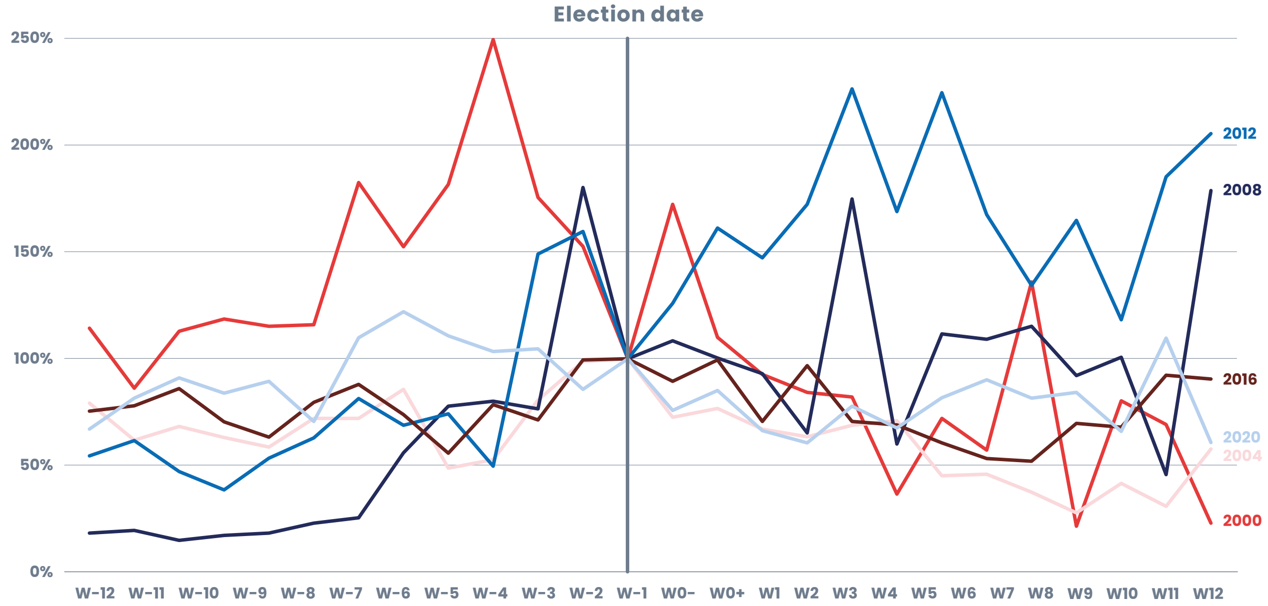
* Trades are all those that were active at the time of the election and are investable for our strategy (with sufficient market capitalisation and daily trading volume).
Source: Bloomberg.

4 - Source: Biden Blocks Takeover Bid of U.S. Steel by Japan's Nippon, The New York Times. https://www.nytimes.com/2025/01/03/us/politics/us-steel-nippon-biden.html

> The conservative or liberal policy advocated by the President and his stance on diplomatic relations can influence corporate tie-ups.

Figure 4 shows median weekly trading spreads normalized to the median spreads on election day, in every election year since 2000 (one data point per week over a six-month period around the election, three months before and three months after).

Figure 4:
United States -- Change in spreads, on a weekly basis, during the six months surrounding the election



Source: Candriam, Bloomberg.

We can see in Figure 4 that ***spreads* tended to tighten in 2000 and 2004 (Republican victory years), and to diverge in 2008 and 2012 (Democratic victory years)**. They remained relatively stable in 2016 (first Trump win) and 2020 (Biden win) . We can link this to the more liberal positions of Republican candidates, who are generally seen as favourable to M&A deals.

3.3. Analysis of the failure rate

Let's take a look at the failure rate of US M&A deals at the time of the presidential elections.

Figure 5:
United States : Rate and number of failed operations in election years

Election year	Number of operations *	Number of failures	Failure rate	Party of the elected President
2000	66	5	7.6%	Republicans
2004	33	3	9.1%	Republicans
2008	29	4	13.8%	Democrats
2012	35	2	5.7%	Democrats
2016	62	7	11.3%	Republicans
2020	38	1	2.6%	Democrats

* Trades are all those that were active at the time of the election and are investable for our strategy (with sufficient market capitalization and daily trading volume).

Source: Candriam, Bloomberg.

Transaction failure rates tend to be higher under a Republican president than under a Democratic president - except in 2008, which was a very special year due to the subprime crisis.

Figure 6:

United States -- Details of 22 failed M&A deals between 2000 and 2020

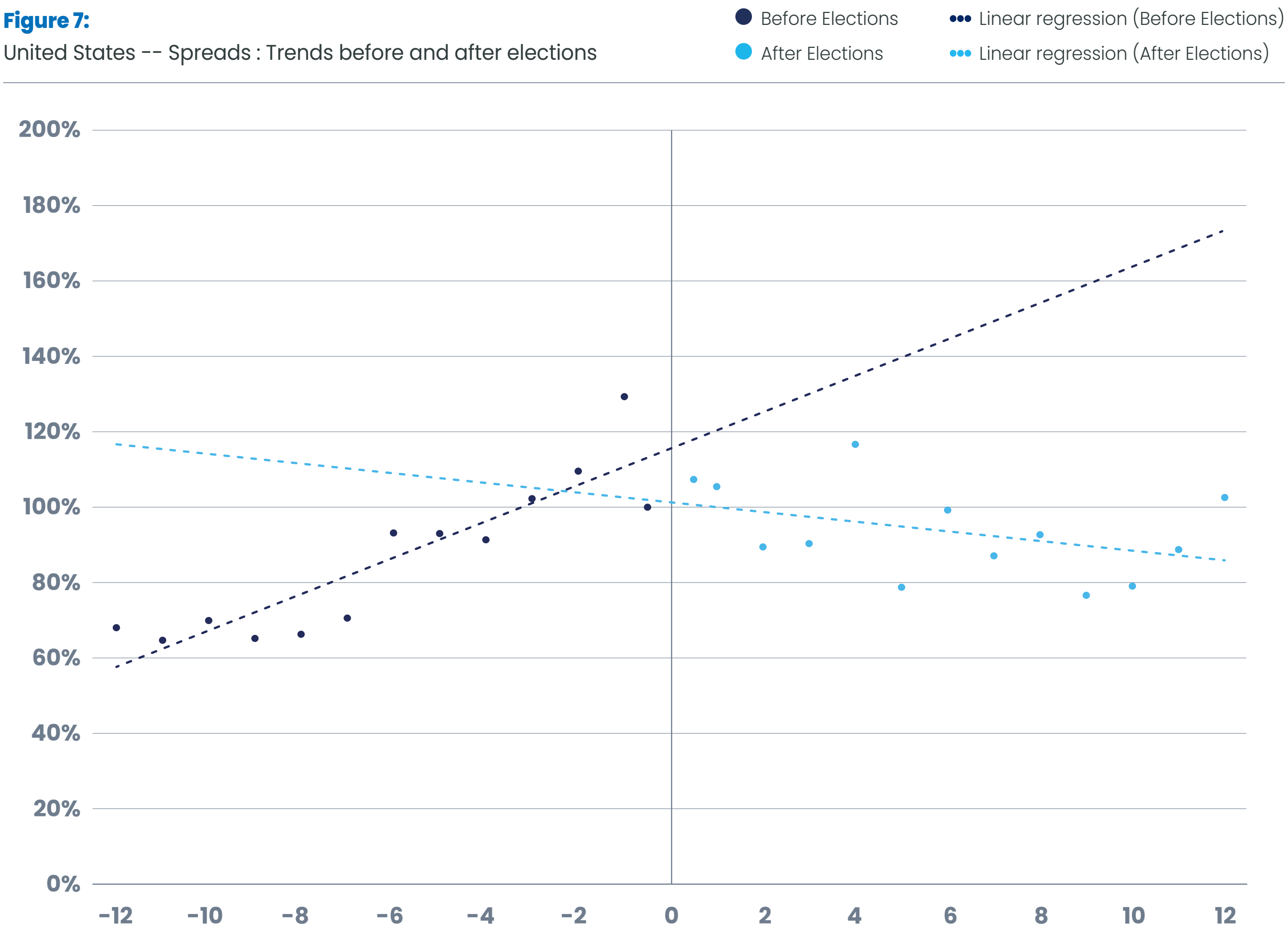
Target	Acquirer	Announcement date	Completion/ Termination date	Termination reason
Tyson Fresh Meats Inc	Credit Suisse USA LLC	10/02/2000	01/01/2001	Acquisition
Honeywell International Inc	General Electric Co	23/10/2000	10/02/2001	Blocked by the EC
Empire District Electric Co/Th	Energy Missouri W.	05/11/1999	01/02/2001	Regulatory & termination date
Pinnacle Entertainment Inc/ Old	Colony Capital LLC	03/08/2000	23/01/2001	Financing
Entergy Corp	NextEra Energy Inc	31/07/2000	04/02/2001	Issue with management of the pro forma
KP Pharmaceuticals LLC	Mylan NV	26/07/2004	27/02/2005	Opposition of acquirer's shareholders
Prime Group Realty Trust	Prime/ Mansur Invest	27/10/2004	11/10/2004	Financing
UNS Energy Corp	Consortium	24/11/2003	30/12/2004	Arizona Corporation Commission's rejection
Alpha Natural Resources Inc	Cleveland-Cliffs Inc	16/07/2008	17/11/2008	Dispute over rescheduled EGM
BCE Inc	Consortium	30/06/2007	12/11/2008	Financing
Landry's Inc	Management buyout	18/10/2008	01/11/2009	Market/ Financing conditions
Constellation Energy Group Inc	Berkshire Hathaway	18/09/2008	17/12/2008	Competing bid for target
Bluegreen Vacations Corp	Diamond Resorts	18/06/2012	04/03/2013	Competing bid for target
Schiff Nutrition International	Bayer AG	30/10/2012	15/11/2012	Competing bid for target
Cigna Group/ The	Elevance Health Inc	24/07/2015	14/02/2017	Blocked by DOJ
Humana Inc	Aetna Inc	07/03/2015	14/02/2017	Blocked by DOJ
Lattice Semiconductor Corp	Canyon Bridge Capital Partners	11/03/2016	13/09/2017	CFIUS
Fidelity & Guaranty Life	Anbang Insurance	11/09/2015	17/04/2017	Bid rejected by stakeholders
Genworth Financial Inc	China Oceanwide Holdings Group	23/10/2016	04/06/2021	Regulatory
Rite Aid Corp	Walgreens Boots Alliance Inc	27/10/2015	29/06/2017	Negative FTC feedbacks
Astoria Financial Corp	Flagstar Financial Inc	29/10/2015	20/12/2016	Regulatory/ legal opposition
Willis Towers Watson PLC	Aon PLC	03/09/2020	26/07/2021	DOJ lawsuit

Source: Candriam, Bloomberg.

An analysis of the failures in the presidential elections reveals a link between the two parameters. For example, in 2016, the year Donald Trump was first elected, two operations were blocked by the Department of Justice -- whose chairman, we recall, is appointed by the country's president. Both deals involved the health insurance sector -- and we know Trump's hostility to social policies. Republicans, on the other hand, tend to have a more business-friendly approach, which explains why ***spreads* are on average tighter under Republican presidencies**, reflecting a lower level of risk perceived by the market.

We also observe that, depending on the candidate elected, **extreme risks can be higher depending on the protectionist or sectoral tendencies of President** -- and this is the case under the Trump presidency -- resulting in a divergence between the median and the mean.

Figure 7:
United States -- Spreads : Trends before and after elections



Source: Candriam.

Observation of the average of the medians for each week before and after the elections shows that **the *spreads* tend to diverge before the elections, and to narrow after**. This can be explained by the fact that the US presidential election remains above all an event generating uncertainty, and that once the election is over, uncertainty and *spreads* decline.

3.4. Impact on the number of announced transactions

A Republican administration, with a more liberal policy and a more flexible and traditional - and therefore more predictable - stance on anti-competitive regulation, will be more favourable to M&A operations. The number of operations may therefore be higher during Republican terms.

The level of *spreads* is a major component of the performance of *merger arbitrage strategies* -- it can be considered as the "margin" on performance. It is therefore crucial to the profitability of our strategies. While the success of risk arbitrage strategies depends on these *spreads*, it also depends on the number of announced transactions: **The greater the number of announced transactions, the greater the choice of investment opportunities.**

What's more, a high number of announced deals can mean less arbitrage, and therefore more opportunities for asset managers.

Figure 8:
Number of operations announced in the first two years of each presidential term

	2001-2002	2005-2006	2009-2010	2013-2014	2017-2018	2021-2022
Number of operations	126	257	137	165	210	202
President-elect's party	Republican	Republican	Democrat	Democrat	Republican	Democrat

We pay particular attention to the first two years of each mandate, as they are traditionally the most active in terms of operations.
Source: Candriam, Bloomberg.

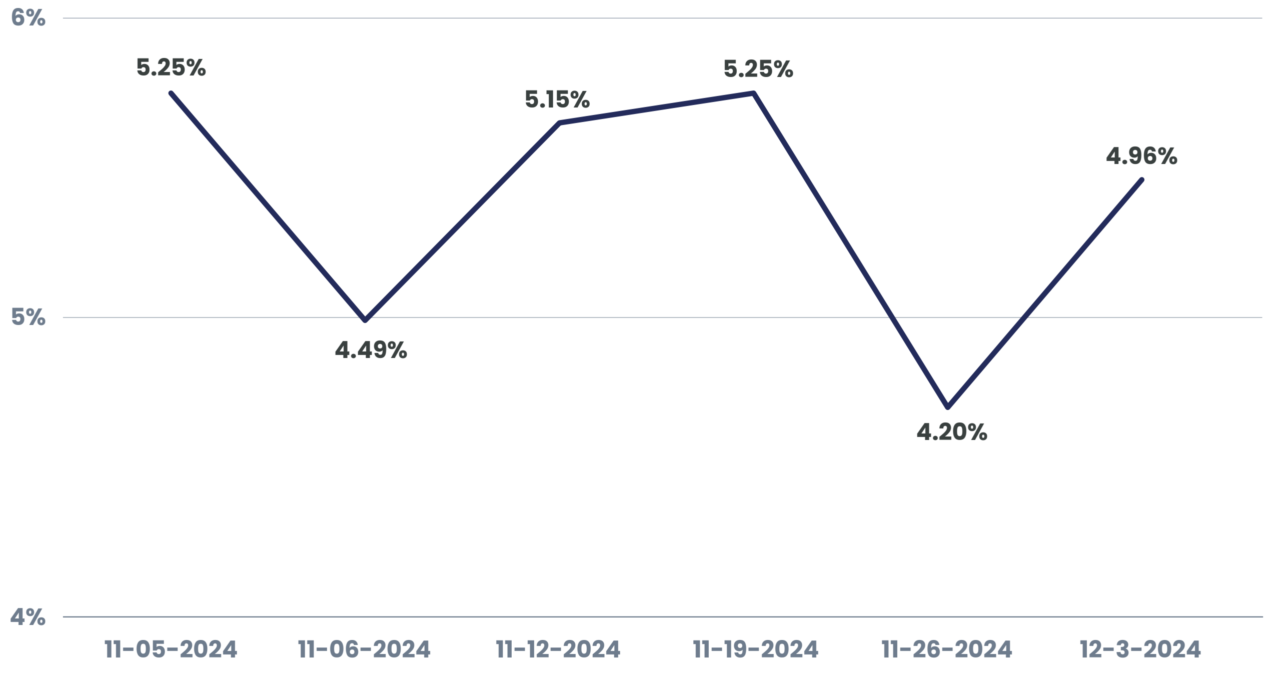
In this table, we can see that **the number of announced transactions tends to be higher during Republican terms.**

3.5. The situation in 2024

The latest US presidential elections, which saw a clear victory for Donald Trump, support our analysis.

Following the election on November 5, *spreads* immediately tightened in anticipation of regulatory easing, before diverging on news that the DOJ had blocked the Amedysis/UnitedHealth transaction[5]. Indeed, the DOJ, still under the Biden administration and with the deal having been under analysis for over a year, was able to block the deal - which triggered a spread widening, with investors worried that the FTC and DOJ were coming to the end of their analysis period on several deals and still had the power to block deals before Trump's inauguration. Added to this were published market stories suggesting that the FTC and/or DOJ still wanted to block deals before the inauguration. Once these had died down, *spreads* tightened up.

Figure 9:
Evolution of the median spread around the US presidential election in November 2024



Source: Candriam, Bloomberg.

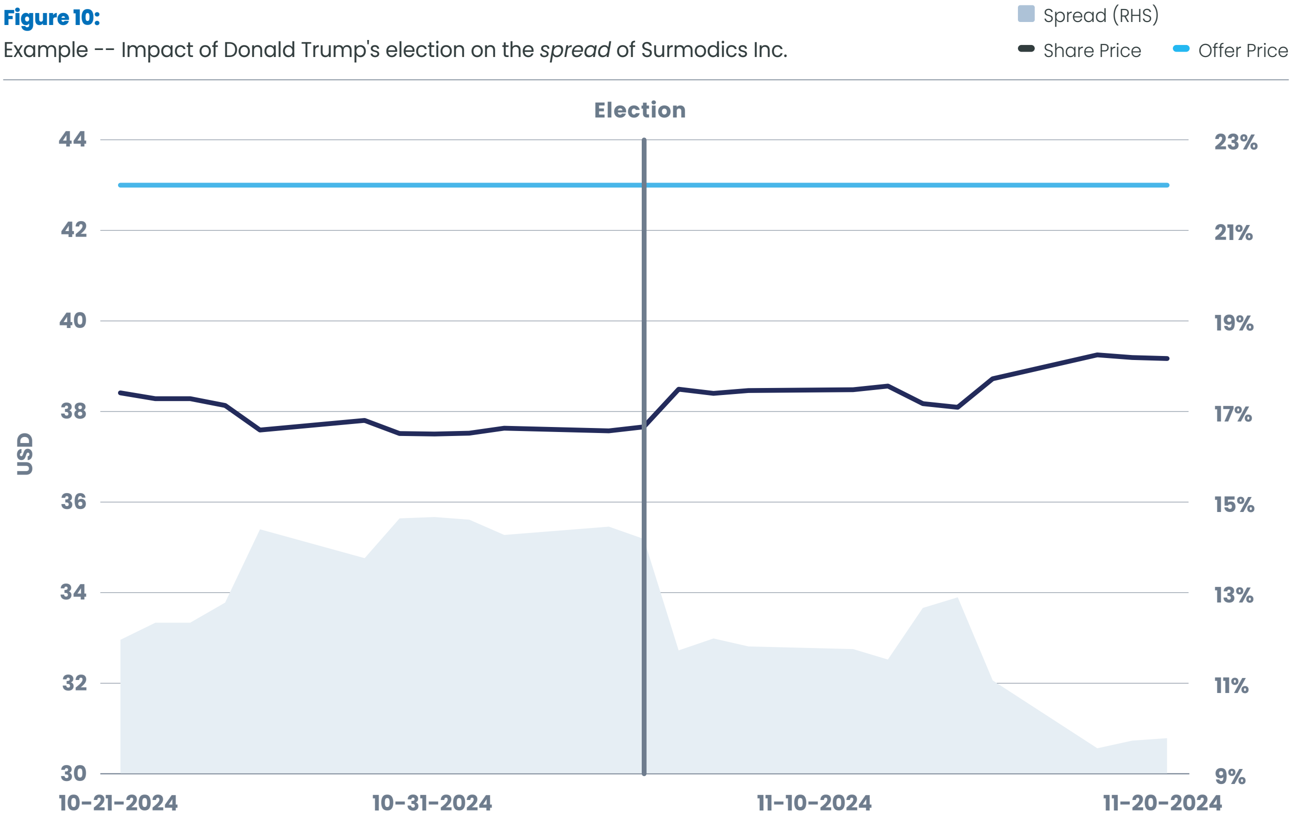
5 - Examples of portfolio companies

The following two examples illustrate these phenomena.

Example 1 - Surmodics, Inc.[6]

Surmodics, Inc., a company specializing in high-performance coating technologies for intravascular medical equipment, is in the process of being acquired by GTCR Golder Rauner LLC, a US private equity firm.[7] As some of the products of Biocoat Inc, one of GTCR's portfolio companies, overlapped with those of Surmodics, the FTC launched an in-depth analysis of the transaction. However, the anticipated changes at the FTC should remove some of the obstacles to such a transaction. As a result, the spread has tightened rapidly, as shown in Figure 9. Indeed, with the election of Trump, this transaction, which requires no approval other than that of the FTC, sees its chances of success multiplied under a Republican administration.

Figure 10:
Example -- Impact of Donald Trump's election on the *spread* of Surmodics Inc.



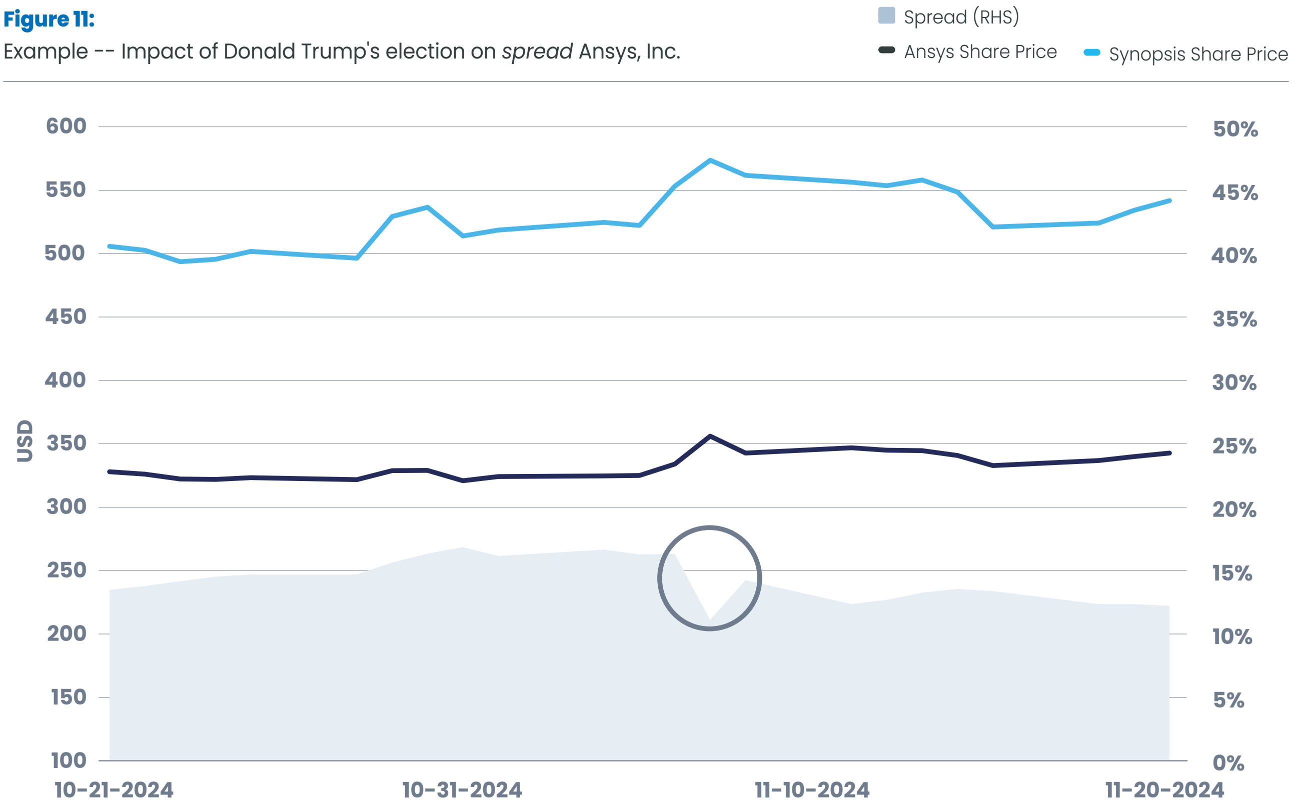
Past performance is not a reliable indicator of future performance. Markets may evolve very differently in the future.
Source: Candriam, Bloomberg. Example of a portfolio company.

6 - Example of a portfolio company
7 - Surmodics Enters into Definitive Agreement to be Acquired by GTCR for $43.00 Per Share in Cash, Representing an Approximate Equity Value of $627 Million. GTCR, https://www.gtcr.com/surmodics-enters-into-definitive-agreement-to-be-acquired-by-gtcr-for-43-00-per-share-in-cash-representing-an-approximate-equity-value-of-627-million/

Example 2 - Ansys, Inc.[8]

Ansys, Inc. is an American multinational company that develops and markets engineering simulation software for product design, testing and operation. Synopsis, one of its direct competitors, made an offer to buy the company on January 5, 2024.[9] As both companies have significant revenues in China, SAMR approval was required. Figure 10 shows the slight widening of the *spread* on November 6, the day after Donald Trump's election, with the market anticipating poor relations with China. On November 7, however, he announced sharp tariff increases on Mexico and Canada, but less than expected on China. As a result, the *spread* has tightened, reflecting this potential improvement in Sino-American relations.

Figure 11:
Example -- Impact of Donald Trump's election on *spread* Ansys, Inc.



Past performance is not a reliable indicator of future performance. Markets may evolve very differently in the future.
Source: Candriam, Bloomberg. Example of a portfolio company.

These two examples illustrate the relationship between election results and *spreads* (tightening or widening).

8 - Example of a portfolio company
9 - Synopsys to Acquire Ansys, Creating a Leader in Silicon to Systems Design Solutions, https://www.ansys.com/news-center/press-releases/1-16-24-synopsys-acquires-ansys

Conclu-
sion.

2025: A tailwind for *merger arbitrage*?

Merger arbitrage strategies are sophisticated investment strategies designed to take advantage of market inefficiencies in M&A transactions. Our analysis of the factors influencing *merger arbitrage spreads* has enabled us to highlight the risks and opportunities associated with these strategies.

An empirical analysis of the evolution of spreads and failure rates during US election periods shows that **there is a significant impact of presidential policies on M&A deals and *spreads*:**

- The more liberal policies pursued by Republican governments provide fertile ground for M&A activity

- Presidential elections generate uncertainty that influences *spreads* operations: these generally tighten in the event of a Republican victory, in anticipation of less restrictive regulations

- The failure rate of operations tends to be higher under Republican presidency

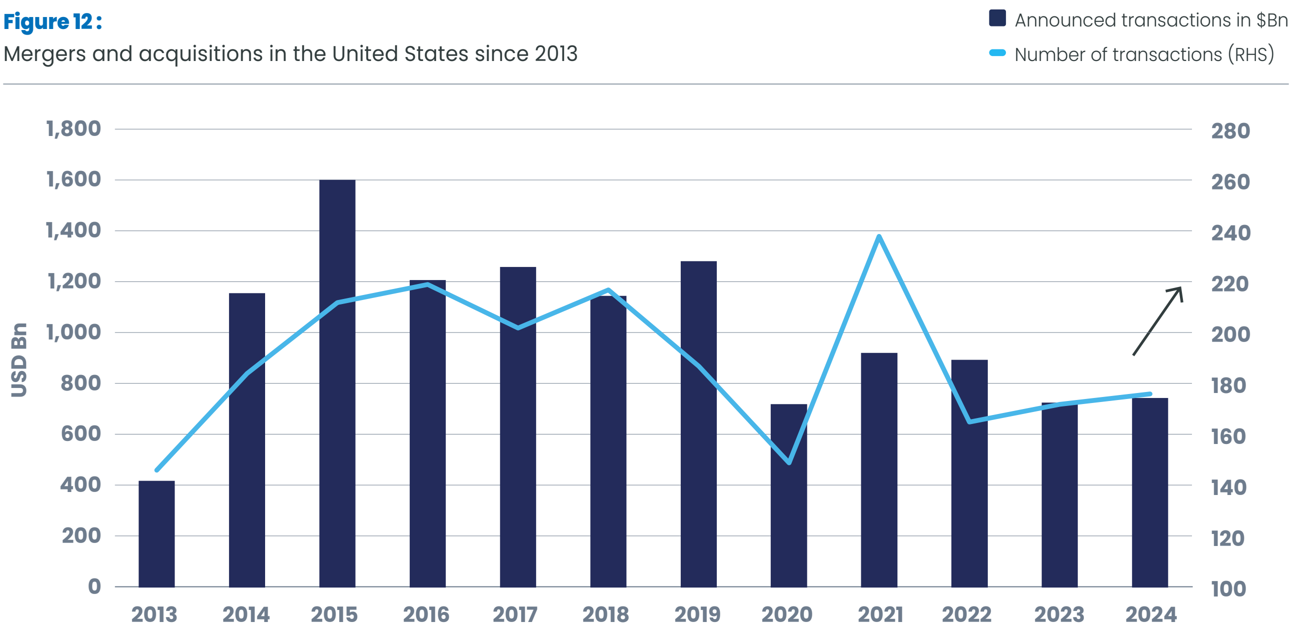
Recovery in sight for M&A business?

With the presidential election having taken place a few weeks ago, the uncertainty is behind us. U.S. growth remains solid, the Federal Reserve should continue to ease monetary policy and lower rates further in 2025, and the elected Republican administration should implement more liberal, M&A-friendly policies. These signals are positive for the M&A business, which, after a slowdown due to four years of regulatory pressure, should pick up again from early 2025. This should create more opportunities for arbitrageurs.

The need for a rigorous analysis of opportunities

The environment is likely to remain complex, however -- as evidenced by the average failure rates on transactions. To seize the best opportunities and offer investors the most attractive risk/return profile possible, **it is essential that the manager of *merger arbitrage* strategies has an in-depth understanding of market dynamics, as well as of the specific parameters of each transaction**:

Figure 12 :
Mergers and acquisitions in the United States since 2013



Source: Candriam, Bloomberg, 31 Dec 2024.

Its strategic stakes, its conditions and the risks they imply, and finally its probability of success. This will enable him to build the positions he deems best suited to benefiting from *spreads*.

At Candriam, we will take this analysis into account, while remaining aware that, while anti-competitive practices should be more favourable in this new Republican term, there may also be a little more risk on certain types of transaction (cross-border, for example). We will therefore be careful to adapt our exposure to transactions according to the risk perceived by the market compared to the risk suggested by our analysis. What's more, we retain the possibility of initiating "short" positions to take advantage of potential negative events for transactions, when we have determined a higher probability than priced in by the market. By selecting longer-duration, lower-quality transactions, these short positions can also act as a hedge for the portfolio when times are challenging for the strategy.

Optimism, risk awareness and confidence in the rigour of our approach -- that's how we see 2025, which could be **a favourable year for *merger arbitrage* strategies**.

Risks.

All investments involve risk, including the risk of capital loss.
The main risks of *risk arbitrage* strategies are:

- **risk of capital loss**
- **equity risk**
- **sustainability risk**
- **counterparty risk**
- **risk related to derivative financial instruments**
- **arbitrage risk**

This list is not exhaustive, and further details on the risks associated with investing in the *risk arbitrage* strategy, as well as the definition of these risks, are available in the regulatory documents relating to the strategy.

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