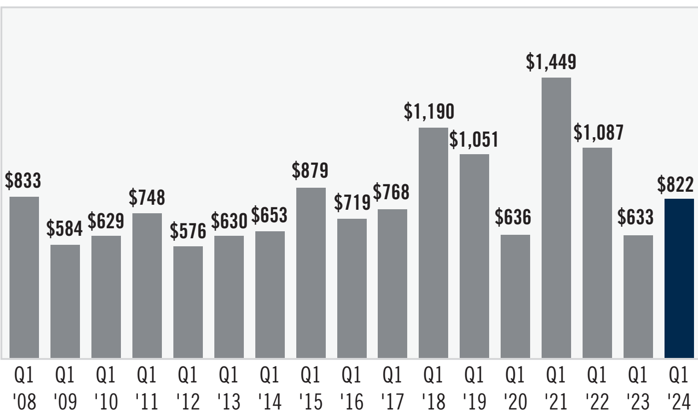
Q1 24 EVENT-DRIVEN
MARKET REVIEW AND OUTLOOK

WESTCHESTER CAPITAL MANAGEMENT
A VIRTUS INVESTMENT PARTNER

MARKET REVIEW

Despite the tumultuous landscape of 2023, the global merger and acquisition (M&A) market demonstrated remarkable resilience, rebounding significantly in the first quarter of 2024. Total deal volume reached an impressive $822 billion, according to Dealogic. North America, in particular, has emerged as a beacon of stability, accounting for over two-thirds of the activity and solidifying its position as the leading market for mergers and acquisitions. This underscores the region's enduring significance in the M&A landscape, reinforcing our confidence in the market's stability.

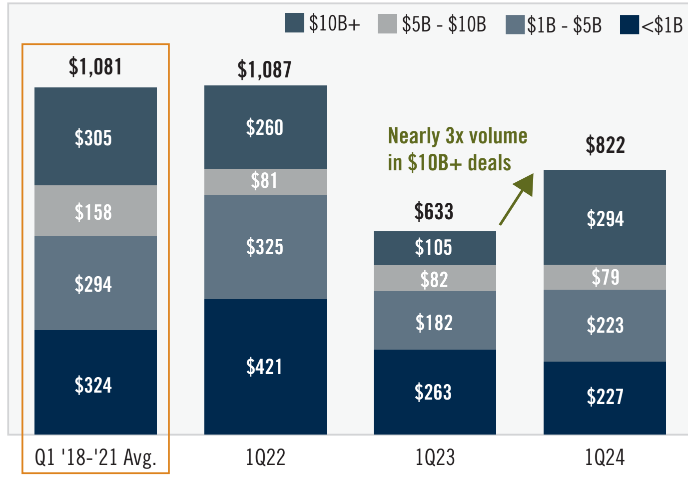
1Q24 GLOBAL ANNOUNCED M&A VOLUME US$B



Data is as of March 31, 2024, obtained from Citi, Dealogic, and assumed to be reliable.

One notable trend indicating the health and resilience of the market is an increase in mega-cap deals. In past quarters, boards and CEOs have been approaching these large-scale transactions cautiously, navigating potential obstacles and gaining confidence before proceeding. It appears that confidence is growing. In the first quarter alone, 16 mega-cap deals were announced, each involving target companies with $10 billion or more in market capitalization. We believe this signifies increasing conviction among major players.

GLOBAL M&A ACTIVITY–DEAL SIZE Volume US$B



Data is as of March 31, 2024, obtained from Citi, Dealogic, and assumed to be reliable.

SECTOR REBOUNDS

Another positive development is the rebound in technology, which has historically been key to M&A activity regarding large, transformative deals. The technology sector faced regulatory uncertainties and scrutiny in 2023, leading to a decline in activity. However, we are now witnessing a solid recovery in both areas, with a significant increase in deals valued at $1 billion+ and the highest number of $5 billion+ deals year-to-date since 2021, which was the second highest ever. Once again, North America played a significant role, accounting for over 40% of these transactions.

Additionally, the energy sector continues to be a prominent player in the M&A space. Following a solid year-end, the energy industry maintained momentum, with several deals valued at $5 billion or more in 1Q, reaching the second-highest level ever recorded.

Corporate separation activity continues to be strong, with a significant number of spin-offs announced this year, reaching one of the highest levels ever. The rest of the year is expected

TOP M&A DEALS OF 2024

Ann. Date	Target Name	Acquirer Name	Acquirer Country	Value ($bn)	Deal Consideration	Target Sector	Strategic
2/20/24	Discover Financial Services	Capital One Financial	U.S.	35.2	Stock	Financials	Y
1/16/24	Ansys Inc.	Synopsys Inc.	U.S.	34.4	Cash and Stock	Info. Technology	Y
2/12/24	Diamondback Energy	Endeavor Energy Partners	U.S.	26.0	Cash and Stock	Energy	Y
3/28/24	Home Depot	SRS Distribution	U.S.	18.5	Cash	Consumer Discretionary	Y
2/20/24	Stone Point Capital	Truist Financial Corp.	U.S.	15.5	Cash	Financials	N
3/11/24	EQT Corp.	Equitrans Midstream	U.S.	14.0	Stock	Energy	Y
1/10/24	Juniper Networks Inc.	Hewlett Packard Enterprise	U.S.	13.6	Cash	Info. Technology	Y
2/5/24	Catalent Inc.	Novo Holdings A/S	DE	11.7	Cash	Health Care	Y
2/21/24	Chord Energy Corp.	Enerplus Corp.	U.S.	11.0	Cash and Stock	Energy	Y
1/11/24	Southwestern Energy Co.	Chesapeake Energy Corp.	U.S.	7.4	Stock	Energy	Y

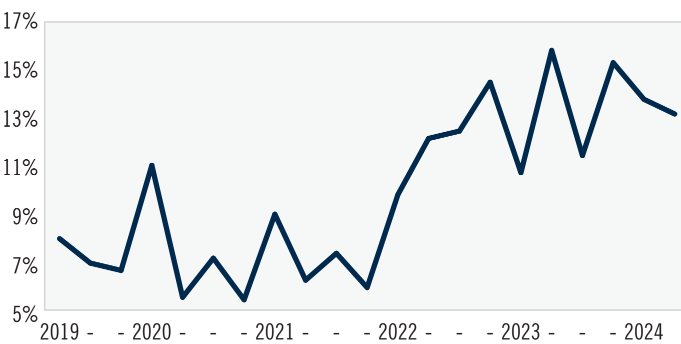
Data is as of March 31, 2024, obtained from UBS, PR Newswire, and assumed to be reliable.

to bring a substantial number of separations, with several slated to close. This trend also benefits the M&A market, as spin-off companies, carveouts, and divested assets are attractive targets for organizations looking to enhance scale and expand their capabilities.

SPREADS

By the end of March, the median spread of definitive mergers in our global deal universe increased quarter-over-quarter to an annualized rate of 13.8%, with weighted median annualized spreads for investments within our portfolios exceeding this figure. (As a reminder, arbitrage and event-driven funds' net performance will typically be lower than gross spreads, which are net of trading and hedging costs, as well as the occasional terminated transaction.) Widening spreads were driven to a significant extent by persistent antitrust scrutiny in the U.S. and associated delays in expected closing dates, political and geopolitical risk, particularly as it relates to certain energy and materials deals, and a high dispersion between low-risk/lower-spread deals versus higher-risk/higher-spread deals.

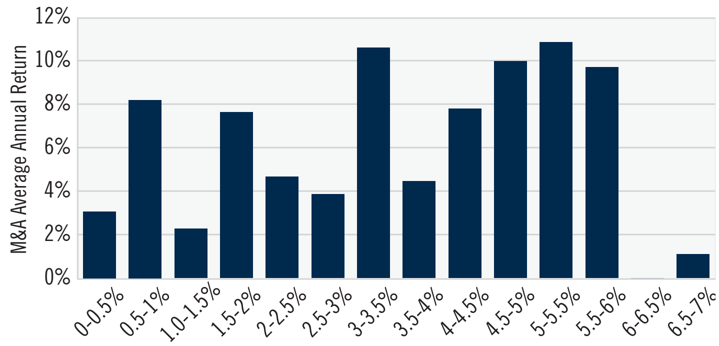
AVERAGE ANNUALIZED SPREAD
January 2019 – March 31, 2024



Source: Westchester Capital Management, UBS. Mergers with an equity value over $400 million involving publicly traded U.S. targets. The arbitrage spreads in the table show the average annualized spreads in our investment universe from January 1, 2019, to March 31, 2024, calculated quarterly. Spread = risk-free rate (SOFR) + risk premium.

We view the current environment as a compelling opportunity. Wider spreads, both in terms of notional value and as compared to the cost of capital and the risk-free rate, may offer the potential for higher returns with improved risk-adjusted performance. As you can see in the following chart, merger arbitrage returns have historically been more attractive during periods of inflation; higher inflation tends to lead to higher rates, and higher rates tend to increase the merger arbitrage spread. With over 35 years of expertise in identifying and capitalizing on such opportunities, we believe we are well-positioned to benefit from these favorable conditions and maximize our investment returns.

MERGER ARBITRAGE INDEX RETURNS GENERALLY IMPROVED WITH HIGHER RATES
Distribution of 12-month M&A returns in different risk-free rate regimes



Source: Virtus Performance & Analytics, Morningstar, Federal Reserve Economic Data. Analysis period runs from 12/31/1989-12/31/2023. Merger arbitrage returns are represented by an average of the returns to the Morningstar U.S. Fund Event Driven Category. The risk-free rate is represented by the 90-Day Treasury Bill yield.

OUTLOOK

We believe a number of positive factors will lead to elevated levels of corporate activity, such as:

- Improving CEO Confidence: This indicates a belief in future growth prospects and a willingness to take on strategic initiatives, including acquisitions, to expand their businesses.
- Easing Financial Conditions: When borrowing costs are stable and potentially on their way down, companies are more inclined to engage in M&A transactions as funding becomes cheaper and more readily available.
- Stock Indices Near All-Time Highs: This reflects positive market sentiment, which also leads to increased confidence among companies and investors. Higher stock prices typically provide more valuable "currency" for potential acquisitions paid for with stock.

Capital Availability

Corporate balance sheets contain roughly $1.8 trillion in cash. Excess cash reserves allow companies to pursue strategic acquisitions, expand their market share, diversify their offerings, and enter new markets. The availability of significant corporate cash can catalyze accretive M&A activity as companies seek growth opportunities beyond organic means.

Private equity firms accumulate capital, often referred to as "dry powder," to invest in corporate opportunities, including M&A. With $1.5 trillion currently available, a substantial pool of funds is ready to be deployed, potentially driving M&A activity. Deployment will likely begin as inflation subsides and interest rates stabilize.

continued

Overall, we believe this combination creates a favorable environment for increased corporate activity, providing companies with the resources, confidence, and incentives to pursue strategic acquisitions and drive growth in their respective industries. These positive trends seem to bode well for the capital markets and for our investments in this space.

Authored by:
The Westchester Capital Management Team

For over 35 years, Westchester Capital Management has endeavored to deliver consistent, absolute returns through the disciplined execution of event-driven alternative investment strategies.