PICTON
INVESTMENTS

# ARBITRAGE OUTLOOK

## THE PICTON REPORT
## 2025 MID-YEAR UPDATE


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# POSITIVE TAILWINDS STARTING TO EMERGE

**It has been an eventful first half for our arbitrage strategies, which were able to generate strong returns in a volatile equity market.**

Our small allocation to convertible bond arbitrage bore fruit in the April market sell-off as our synthetic put positions generated high returns on capital.

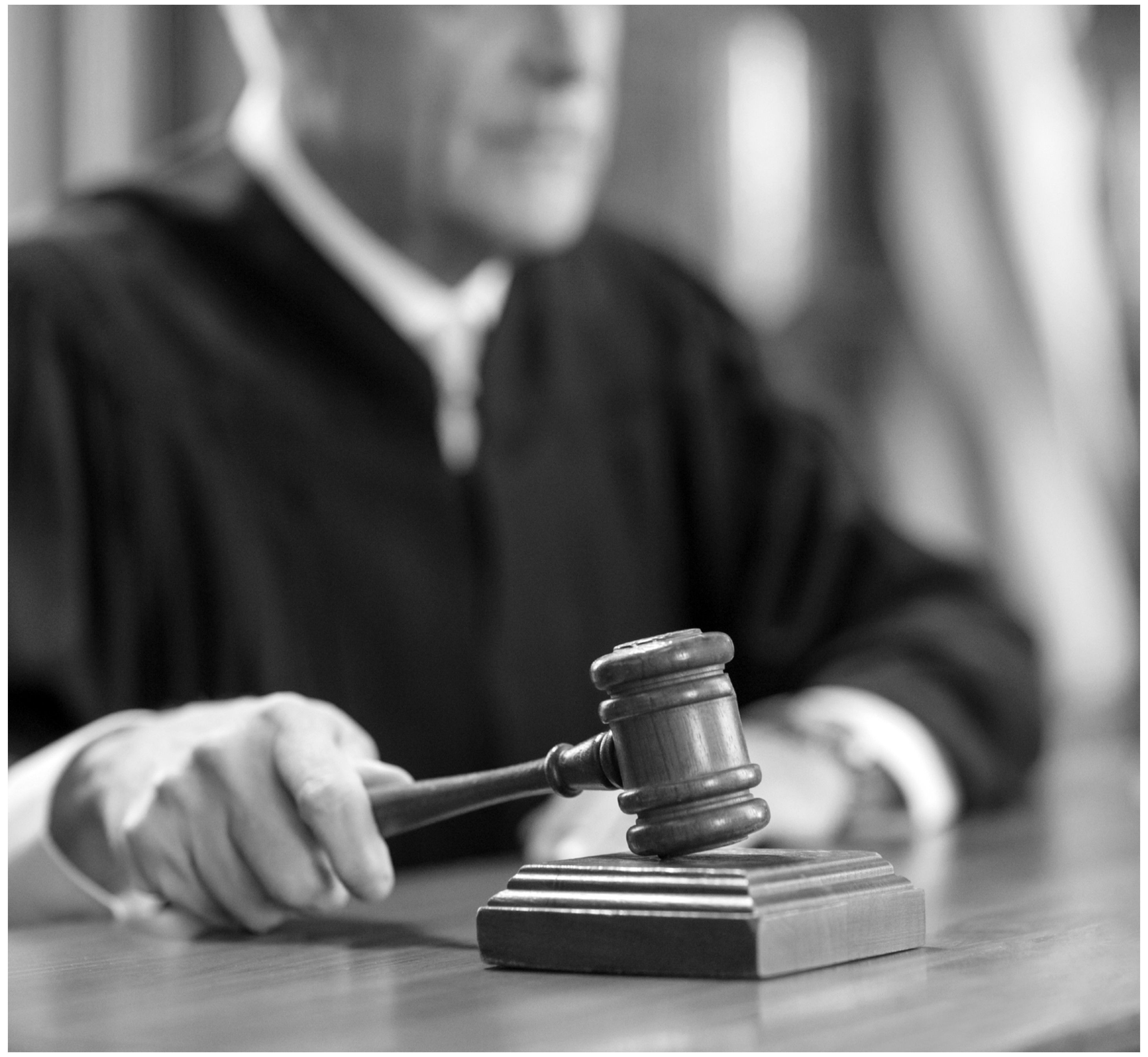
We largely rotated out of these puts and have redeployed capital into more balanced (lower delta) convertible bonds, taking advantage of wider credit spreads.

> *We have already seen the impact of this new antitrust regime as deals are progressing* ***at a much faster pace.***

## Regulatory Tailwinds South of the Border

We've discussed in past updates how the Biden administration's antitrust regulators, helmed by Lina Khan at the Federal Trade Commission (FTC) and Jonathan Kanter at the Department of Justice (DOJ), created a very challenging environment for merger arbitrage investing. The election of Trump and the appointment of Andrew Ferguson at the FTC and Gail Slater at the DOJ has eliminated this regulatory headwind from the strategy:

- While the Trump administration is continuing the existing antitrust battles against Big Tech, the messaging from the new leadership on merger and acquisition (M&A) is that where they don't see a deal violating antitrust laws, they want to get "out of the way"[12].
- The new DOJ antitrust leader has also indicated they are open to robust consent decrees for merger remedies, which is a return to past practice. We have already seen the impact of this new antitrust regime as deals are progressing at a much faster pace.
- As an example, Johnson & Johnson's acquisition of Intra-Cellular Therapies, Inc. (announced in January) closed in 80 days. While no two deals are identical, a fair comparison is the acquisition of Seagen Inc. by Pfizer Inc. in 2023. Under Lina Khan's FTC, this took 277 days to close.



## M&A Should Benefit from Reduced Trade Uncertainty

M&A volumes were impacted by the uncertainty caused by Trump's tariff policy, though activity is picking up in May as trade deals are being signed. We anticipate a strong M&A market in the second half of the year, driven by the friendlier regulatory environment and clarity regarding tariffs.

[1] Axios "Scoop: Trump FTC tells CEOs when agency will get "out of the way" on M&A.

## SPACs are Back: 2024's Seeds Become 2025's Harvest

If 2024 was a year of planting seeds in the Special Purpose Acquisition Company (SPAC) market, 2025 is shaping up to be harvest time:

- The market has been catalyzed by the announcement of the Cantor Equity Partners, Inc. (CEP) business combination with Twenty One Capital Inc, a new vehicle that will be the third-largest Bitcoin treasury globally.
- With partners like Tether Limited, Bitfinex, and Softbank Corp., the new company has been embraced by retail investors and is trading in the $40 range by the end of May (vs. $10.31 in reported cash per share in trust).
- This is the best performing de-SPAC announcement since the SPAC bubble of 2020. CEP has served as a reminder of the valuable optionality imbedded in SPACs. Post-announcement, we've seen a broad increase in SPAC warrant values which has increased our SPAC arbitrage returns. We anticipate a further increase in SPAC new issuance in the second half of 2025.

## Looking Ahead: A Promising Convertible Calendar Awaits

With market volatility abating, we are seeing new convertible issue activity picking up and anticipate a strong calendar for the second half of the year as many issuers need to refinance capital raised in the 2020-2021 boom.

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All figures provided are sourced from Bloomberg L.P. unless otherwise specified, and are based on data as at the dates indicated.

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