Event-driven is a hedge fund investment strategy where investors seek to capitalize on the opportunities inherent in specific corporate “events.” Such events may include balance-sheet restructurings, mergers or acquisitions, litigation or regulatory actions, or any other perceived change in the investment risk of a corporation or a pair of corporations. A corporate event may be unrelated to broad market conditions and unique to the specific organization.

Event-driven investing could include corporate fixed income securities, equity-related instruments and non-agency asset-backed and mortgage-backed securities.

**Equity sub-strategies**

- **Merger arbitrage** strategies primarily focus on opportunities in equities and other financial instruments of corporations currently engaged in acquisitions. Opportunities are frequently presented in cross-border and international transactions, and regulatory approval in multiple jurisdictions may be required. Although most merger arbitrage strategies are implemented by use of equity-related financial instruments, corporate credit instruments are occasionally used.

- **Special situations** strategies primarily focus on opportunities in equities and other financial instruments of corporations engaged in corporate transactions, the issuance or repurchase of securities, asset sales, division spin-offs or other catalyst-oriented events. Such situations may be identified via fundamental research or media reports.

- **Activist** strategies are pursued by investors seeking to play active roles in unlocking investment value. Activist investors may work with company management, or seek to replace it, if business milestones are not achieved. Activist investors may try to influence outcomes by teaming up with other investors, and they may go public with their action plans. They typically focus on opportunities in equities-related instruments of companies that are currently or prospectively engaged in corporate transactions, issuance/repurchase of securities, asset sales, division spin-offs or other actions following catalyst events.

**Credit sub-strategies**

- **Opportunistic credit** strategies are those where allocations are targeted to specific security types and markets as market conditions vary. Managers often assess the degree of overall market exposure on a position-level basis and adjust their portfolio-level exposures to general credit-spread movements separately, based on their views of macroeconomic conditions.

- **Asset-backed** strategies seek to realize profits on financial instruments trading at a premium or at a discount to fair value, where the instruments’ values are ultimately tied to cash flows generated by physical collateral or other financial obligations.

- **Distressed/high-yield** strategies primarily focus on corporate credit instruments of companies trading at significant discounts to their value at
Event-driven investment strategies

**RISKS TO CONSIDER**

- Some probability of large loss
- Protracted litigation
- Realization of value
- Illiquidity, particularly small cap deals
- Idiosyncratic position risk
- Deals breaking (issues with funding, shareholder approval, target firm’s management, or regulatory action)
- Muted deal activity
- Event uncertainty, tail risk from events not actuating
- Illiquidity, particularly small cap deals
- Protracted litigation
- Uncooperative management teams
- Miscalculation of costs
- Illiquidity

**POTENTIAL RETURN SOURCES**

**STRATEGIES**

<table>
<thead>
<tr>
<th>Equity</th>
<th>Potential Return Sources</th>
<th>Risks to Consider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merger arbitrage</td>
<td>Convergence of prices of acquirer and acquired upon actuation of merger</td>
<td>Deals breaking (issues with funding, shareholder approval, target firm’s management, or regulatory action)</td>
</tr>
<tr>
<td>Special situations</td>
<td>Rationalization of valuations from different parts of the capital structure often associated with a corporate event</td>
<td>Idiosyncratic position risk</td>
</tr>
<tr>
<td>Activist</td>
<td>Value creation as a result of activism realized from sale of assets or operational turnaround</td>
<td>Protracted litigation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit</th>
<th>Potential Return Sources</th>
<th>Risks to Consider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunistic credit</td>
<td>Realization of value from oversold securities</td>
<td>Default or sudden illiquidity, cash flows dry up</td>
</tr>
<tr>
<td>Asset-backed</td>
<td>Realization of illiquidity premium from thinly traded securities</td>
<td>Sensitivity to the economic cycle</td>
</tr>
<tr>
<td>Distressed/High-yield</td>
<td>Value extraction from identification of oversold debt securities, harvesting coupons, receiving price appreciation once value is realized</td>
<td>Lack of protection within corporate structure</td>
</tr>
<tr>
<td></td>
<td>Value creation through active participation in restructurings</td>
<td>Poor information regarding credit ratings, underlying assets, structure and covenants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Some probability of large loss</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Uncertain exit strategy from restructured securities</td>
</tr>
</tbody>
</table>

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**FOR MORE INFORMATION:**
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